SOCIAL INSURANCE AND INDIA

By

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FOREWORD

By

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To

My Parents

in deep reverence

and

My Brother

in heartfelt gratitude

"The challenge confronting us in the twentieth century is that of economic insecurity, which weighs down our lives, subverts our liberty, and frustrates our pursuit of happiness . . The wage system has made economic security depend entirely on the stability of our jobs Such utter dependence upon a wage for the necessities of life has never before been known in any society . It is our complex civilisation which, while conquering nature, time and space, has made men the slaves of their jobs

"It is the grim paradox of our present-day society that with granaries bursting with food supplies, warehouses filled with shoes and clothing, and foods of every kind in over abundance, men, women and children go hungry and naked or depend on charity for their very existence Fantastic and ridiculous as it may seem to a visitor from Mars, it is the stark reality today Unlike earlier days when insecurity was brought about only by forces beyond human control and from insufficiency of goods, the great insecurity of our day prevails despite our luxuriant plenty

" . The insecurity of our wage earners in the face of the hazards of modern life menaces more than mere national prosperity It endangers the very existence of the social order No society which exposes the majority of its members to such grave and continuous hazards can endure for long"

•

ABRAHAM EPSTEIN.

FOREWORD

MR. M. R. IDGUNJI'S book on *Social Insurance and India* is a well planned treatise

It is divided into two parts. Part I is general and deals with two main topics: (I) the four principal branches of social insurance, viz, (i) Workmen's Compensation, (ii) Sickness Insurance, (iii) Pension Insurance, and (iv) Unemployment Insurance, and (II) the different financial aspects of social insurance such as the financial resources, the actuarial technique and financial administration. The discussion of the financial aspects of social insurance is aimed to explain the various problems connected with the financial resources required for the working of social insurance schemes, the various systems according to which the resources can be organised so as to have social insurance schemes working on sound lines and the problems of administration connected with the financial side of social insurance.

Part II deals with the problem of social insurance in relation to conditions prevalent in India In this part the provisions of the Indian Workmen's Compensation Act, 1923, and of Sickness Insurance are subjected to a critical examination In addition to this, there is a discussion of the Beveridge Plan of social security and of the scheme of social security adopted in New Zealand. The discussion ends by an exploration of the possibilities for social security measures in India The author holds the view that sound social insurance measures are not feasible in India unless certain fundamental difficulties are removed, and the country makes a substantial advance economically and is rid of the stark poverty that prevails in it today. The reasons in support of the stand he has taken are set out clearly and fearlessly Realizing that India is predominantly an agricultural country and that the agricultural population sadly needs protection, the author has suggested a scheme of crop insurance based on the principles of social insurance If indeed a scheme of crop insurance be evolved on the lines suggested by the author, it should go a long way in bettering the conditions of the rural masses in our country

and lessening the terrors of famines that often visit them

Social insurance is a new thing in India. The Indian contribution to the literature on the subject is naturally meagre In the circumstances, Mr Idgunji's book is sure to be welcomed by all students of the subject both as an addition to the scanty literature thereon and also as a critical examination of the problems arising out of it His style is lucid and his exposition is very clear.

B R AMBEDKAR

PREFACE

WITH the battle of freedom over, we are now face to face with a number of urgent economic problems that had been either ignored or shelved so far The Government of free India is now shouldered with the grave and important responsibility of planning the future on foundations of justice and equity to fulfil the ideal of a happier and fuller life for the ordinary citizen. It must be realized that political freedom actually does not and shall not mean anything to the common man, so long as it does not secure for him freedom from want. Removal of economic insecurity has been rightly recognised as one of the foremost duties of the State. It is therefore, gratifying to find that India is now taking a step forward in that direction with the Workmen's State Insurance Bill on the legislative anvil

The idea of social security is rather new to the people in India. Although the subject is quite popular, it—particularly its scope and possibilities—is not yet widely and clearly understood This is mainly due to the fact that while there are a number of books dealing with particular aspects of it and particular countries, there is almost a complete lack of concise yet comprehensive books dealing with the whole subject and giving a comparative idea of the progress made in various countries. This fact was borne in mind while writing this book. Therefore the theory and practice and the financial aspects of social insurance have been described and explained in Part I of the book. It is hoped that this part would prove extremely useful to the average reader and its study should enable him to apply his mind independently to the question of introducing social insurance measures in India. After thus equipping the reader with this information, he is taken to the Indian scene in Part II of the book where the problem in India has been exhaustively and critically discussed The peculiar conditions prevailing in our country have been given due thought in this discussion.

Appendix I deals with the economic conditions of Indian seamen and the proposed scheme of social insurance for them.

Appendix II gives some details regarding the benefits granted in New Zealand and its expenditure on social services Appendix III states the actuarial formulæ involved in typical schemes of sickness and pension insurance The Calcutta Claims Bureau representing insurance companies had issued a statement in defence of the present Workmen's Compensation Act sometime after the publication of the Adarkar Report. Appendix IV replies to that statement

It may be added here that this work was originally written as a post-graduate thesis a little over three years ago. It was revised later and brought up-to-date. Yet it has not been possible to discuss the new legislation adopted in Great Britain particularly and a few other countries, and the Workmen's (now changed by the Select Committee to Employees') State Insurance Bill in the Indian legislature at present, as the manuscript was then already in press. However, a brief note on the Indian proposals embodied in the Bill has been added.

I must express here my gratitude to Professor G. S. Diwan, M.A., F.I.A.(Lond.), of the Sydenham College of Commerce and Economics, Bombay, for his useful guidance in my work and particularly for Appendix III of the book mentioned above. I am also obliged to Principal S G Panandikar, M.A , Ph D (Lond), D.Sc. (Lond), of the Sydenham College, and Professor K. T Merchant, M A , LL.B , B.Sc. (Econ.) (Lond), of the Elphinstone College, for the interest they had taken in my work Thanks are due to Mr. E. K P. Menon for willing help in typing out the whole manuscript at short notice. I must also acknowledge the kind permission given by the editors of *Commerce* and *Eastern Economist* for reproducing in this book portions from my articles that appeared in these journals. I am grateful also to Mr. Sunil Janah and *The Illustrated Weekly of India* for the photographs which appear in this book

Bombay,
March 1948.

MANOHAR IDGUNJI.

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CHAPTER II

WORKMEN'S COMPENSATION

WITH the Industrial Revolution in the 18th century, the economic conditions of England changed Soon similar changes in the method of production were introduced in other countries One of the features of the new order was the factory system With the rapid spread of the factories, close at the heels of the benefits that were reaped, the inevitable evils of the system came to light Amongst these one of the most horrible was the plight of the factory workmen With the introduction of machinery, the number of accidents amongst workers had naturally mounted and the question of relieving them attracted all thought and attention

The problem of prevention of such accidents was tackled. Although very important in itself, prevention is not a perfect remedy Preventive measures applied intelligently do reduce considerably, but not completely, the number of accidents ; not even the most perfect and ideal preventive measures do so. Some accidents are inevitable and hence the idea of compensating the workers for such injuries originated This was the only solution to the problem of industrial accidents This idea is indeed simple, practical, just and humane However its realisation in practice and its institution in the legal system took a long time The idea was that when a workman gets injured while working for his employer, the employer should compensate the worker for the economic loss caused to him by such injury The law took a long time to realise and recognise this conception of employer's liability *

Principle of Occupational Risk

This is a simple principle purporting that, apart from any

* In the case of Great Britain, the change from common law to Workmen's Compensation Act of 1897 makes an interesting study

idea of responsibility, compensation for the damage caused by any object must be paid by the owner thereof.* When this principle is accepted, the problem becomes very simple. The idea of "fault" is removed. Since the employer is a person who owns the organisation whereby a number of men and machinery come together for work which may and does actually give rise to accidents and injuries, the burden of compensation for them without any question of fault or responsibility must naturally fall on the organisation and the employer, as after all the risks are inherent in the work. In fact these risks are as natural as those of depreciation of machinery, cost of repairs, upkeep of premises, etc.. And therefore the cost of compensation for injuries should form one of the liabilities of the undertaking as the abovementioned expenses do.† Like the overhead expenses, this cost should be borne by the employer. This principle may even be looked upon as a compromise. The employer waives his common law protection and the worker waives a part of full compensation claimable on his proving employer's fault

Since the employer's liability is made definite, there has been a scientific approach to the question of the amount of compensation. Since it involves the assessment of fixed compensation, fixed scales of compensation have been worked out in different countries, based on the injured person's wages, and allowing for the seriousness of the accident and its consequences or, in the event of death, based on the nature and the number of dependents.

According to the doctrine of occupational risk, in principle, when an injury attributable to the work befalls any worker, the legal basis of the right to compensation and of the liability to pay must be the same whatever the type of the undertaking, the workman, the work and the injury However a review of the laws in the different countries shows that this is not so in practice, where it has serious limitations and exceptions, e.g , small under-

* International Labour Office, Studies and Reports, Series M, No. 2, *Compensation Against Industrial Accidents* (Geneva, 1925)

† International Labour Office, Studies and Reports, Series M, No 12, *International Labour Office and Social Insurance* (Geneva, 1936)

takings, agriculture, domestic service, etc., are omitted from the operation of the laws.

Scope

Historically, since the principle of employers' liability for occupational risk arose owing to the impetus given by the scandals of the factory system, in the earlier schemes workmen's compensation was limited only to factories and mines, where the danger of accident was very great. However, the principle pressed on to its logical conclusion and has now spread to almost all undertakings, and covers most employed persons.

On a review of the present laws it appears that domestic service is the employment which is most commonly excluded from the schemes of compensation in about half the number of countries, which have at all adopted any scheme of workmen's compensation. Agricultural enterprise using machinery is now covered in most of the schemes, either generally or specially, still about a fourth of the Acts exclude all farm labour. Another group to be generally excluded is that of small industrial concerns or non-mechanised plants, which are excluded in about a third of the laws. Seamen are left out in about a third of the laws, casual workers in about a half and home workers or outworkers in the majority.*

So far as the undertakings are concerned, the scheme should not leave out any of them There is no rational cause to be found for any omission However in most countries small undertakings employing workers below a certain minimum fixed by the statute are exempted from the operation of the law, the reason given being that the resources of the small employer hardly exceed those of the worker and therefore he cannot be expected to carry the burden of compensation. Similarly some undertakings are left out on the ground that they involve only a slight accident risk, e g , domestic service, agriculture, etc These exceptions are incompatible with the principle of occupational risk and the right to compensation of the worker and the liability of the employer to pay it must be conceded and enforced in every case

* *American Academy Annals*, op cit

So far as the workers are concerned, we again find similar limitations to the principle of occupational risk. Non-manual workers getting a salary above a certain limit are excluded in almost all countries. Similarly casual workers are left out, as also outworkers. Non-manual workers are excluded on the ground that they by virtue of their high remuneration are able to look after themselves. Such other exclusions are defended on the ground of expense and difficulty of collecting premia.

In Great Britain, persons covered are those who work under a contract of service whether by way of manual labour or clerical work or otherwise except (1) non-manual workers getting over £350 per year, (2) casual workers employed otherwise than for the purpose of the employer's trade or business, (3) members of the police force, (4) outworkers, (5) members of the employer's family dwelling in his house, (6) naval, military or air services of the Crown.*

There is one more point to be noted about the scope of workmen's compensation. With merely the principle of employer's liability, independent workers like the artisan, peasant or the fisherman are naturally left out. However if employers are made to insure compulsorily their risk against accident with a State Fund, and if thus workmen's compensation becomes a branch of social insurance, this accident insurance as a branch of social insurance can take care of these independent groups also and provision can be made for them to insure their occupational risk with the State Fund, either voluntarily or compulsorily as in Germany and Italy †

Risks Covered

The risks covered by workmen's compensation are the economic loss, i.e., the loss of wages, and the medical expenses resulting from the injuries. Whenever a worker suffers injuries, these do not result in economic loss, i.e , loss of wages, on every occasion According to Swiss experience, injuries involving economic loss amount to about two-thirds of all accidental injuries ‡ Indus-

* Salmond's *Law of Torts* (ninth ed)

† I.L O , Series M, No 18, op. cit , p 31

‡ Ibid , p 36

trial injuries result in two ways either by industrial accidents or by occupational diseases. The latter have not yet received recognition in all countries, but they are now being compensated for in an increasing number of countries.

Industrial Accidents

The definition of the word "accident" has not been found easy to formulate. Most of the workmen's compensation laws have refrained from defining this term, for fear, perhaps, that any definition might unnecessarily work hardship on the worker by inadvertently providing some loophole for some accident cases to slip through. These laws have remained content with merely saying that there must be an injury connected with the victim's work. Etymologically, accident means simply an unusual event or unexpected occurrence. However, this meaning is quite inadequate for the compensation laws Some countries have ventured upon some definition. For instance, in Brazil, an accident has been defined as a "sudden, violent, external and not wilfully caused occurrence, producing bodily injuries or functional disturbances".*

Accidents may have different effects, all, however, varying in degree. The general result is that the worker is prevented from working and is thus incapacitated, i.e., loses his capacity of earning wages. Now this capacity may be affected in a number of ways; and therefore four convenient divisions have been made of this incapacity, although they are not so followed in all the countries · (1) Permanent total incapacity, (2) Permanent partial incapacity, (3) Temporary total incapacity, and (4) Temporary partial incapacity.

Incapacity is said to be permanent when after the injury has been fully healed, the accident is found to have resulted in a definitive reduction in earning capacity. It is total when the worker is considered as being unable to engage regularly in any remunerative occupation It is partial when the workman is able to obtain a diminished wage in some employment Incapacity is said to be temporary, when in view of the nature of the injury, there is reason to believe that after a period, recovery

* *Compensation for Industrial Accidents*—I.L O , M 2, p 115.

will be complete and no definitive reduction in earning capacity will result. As in the case of permanent incapacity, temporary incapacity may also be total or partial.

Whatever the form in which "industrial accident" might have been defined in different countries, the interpretation of the definition has in most countries resulted in endless litigation and has created volumes of case law of bewildering bulk. This has been found to be so particularly in those countries like Great Britain, where there is no State insurance fund and cases are settled in ordinary law courts. In Great Britain, for instance, compensation is awarded to workers covered by the Act for "personal injury by accident arising out of and in the cause of employment". To a layman these words look indeed quite clear, simple and straight. Yet the interpretation of these words has meant endless litigation and a veritable jungle of case law, through which neither light nor warmth can penetrate.* And this has naturally resulted in great hardship and injustice to the worker; since his economic and educational disabilities make him too weak to stand against the resources available to a large insurance company or a big employer, even though he might be helped by a trade union. The term "accident" has been defined as "any unexpected injury resulting to the workman in the course of his employment from any unlooked for mishap or occurrence".† Now, to arise out of the employment, the accident must be sustained while the injured person is engaged in doing something which it was his duty to do as part of his employment. To be in the course of his employment it must take place during the time that he is engaged in his employment This has naturally resulted in a vast amount of litigation, since often the tendency of the employer or his insurance company is to avoid making the payment of the compensation. This indeed makes one doubt the practical benefit of the Workmen's Compensation Acts to the working class. The only remedy to this seems to be the compulsory insurance of the employer's liability with a State mutual fund, which affords better scope for the administration of the compensation laws in the real interests of

* *Social Security*, Ed by Robson, p 12.

† *Fenton* vs *Thorley* (1903), A C 765

the worker. The only benefit that the worker might have derived from such litigation might be said to be that these court decisions have tended to widen the notion of accident, which would have been impracticable for legislation to do.

As mentioned above, the principle of occupational risk lays down that accidents, without any idea of fault, must be looked upon as inherent in an occupation. Although this is generally the case, it cannot be denied that while on one side some accidents might result from the employer's negligence or fault, on the other side some might take place owing to wilful misconduct on the part of the workman. And in such cases it would be unjust to compel the insurers to pay or to allow the workman to get compensation. But such questions being very disputable, the general practice has been to ignore such cases except the most inexcusable like, say, the employer's failure to provide the prescribed safety appliances or, say, their wilful removal by the workers. In such cases the guilty party is made to suffer : the worker loses his compensation, while the employer, when guilty, has to repay compensation to the insurer or pay extra compensation to the injured workman. The placing of the liability on the employer has been said to be justified by the fact that he has the power to take preventive measures. This reason does not seem to be correct, since preventive measures, as said above, however intelligently applied or however perfect, can never completely eradicate the accidents, which are to a certain extent inevitable. It can be better justified on the ground of the worker's economic condition and by the fact that after all the worker works for the employer who owns that organisation and is in a position financially to pay compensation.

Occupational Diseases

Another point to be noted about the risks covered by workmen's compensation laws is that relating to the occupational diseases. The earlier laws covered occupational accidents only. The occupational diseases were excluded, because then it was thought impossible to prove that the disease in any particular case resulted from the work. However with the advance of the medical science, it became obvious that the diseases were caused

by the work. Soon the notion of occupational injury was held to cover occupational diseases that resulted from the work, and, at present, majority of the laws cover an evergrowing number of such diseases These diseases have been covered in the different laws in two distinct ways. In some cases the diseases covered by the law have been expressly stated in a list. In Great Britain the Act contains a list in which against every disease in the list is mentioned the occupation which has been conclusively proved to cause it, so that, if such disease arises in any other occupation, the burden of proving that it resulted from the work falls upon the worker Such lists of diseases have been lengthening (already over twenty) just as chemistry introduces new poisons into industrial processes and medical science confirms the occupational origin of the new diseases. The other method of inclusion has been that of simply defining the risk covered as physical injury met with during the work, so that this definition includes not only an accident, but any disease which can be proved to have originated in the work, whether suddenly or gradually This is the case in Brazil, California and New South Wales. The ideal method seems to be first to give an exhaustive list of diseases together with the occupations originating them, and then add the abovementioned general definition of the risk covered, so as to include any new disease also.

Benefits

The benefits granted under workmen's compensation systems may be divided into two classes, viz., cash benefits and benefits in kind.

Cash Benefits

The cash benefits are calculated in terms of previous wages. Such wage from which the compensation is calculated is called the basic wage It is used to measure the loss suffered. The basic wage generally means the average weekly or monthly wage during six months or a year next preceding the date of the injury. Maximum and minimum limits are put on the basic wage and consequently on the compensation payable—maximum, in order not to burden the employer too much, and minimum,

to avoid paying small compensations

Now, the economic loss that befalls a worker from an injury may broadly be divided into three states : economic losses resulting from (1) temporary incapacity, (2) permanent incapacity, (3) death. Benefits granted in these cases perform, socially speaking, the same functions as sickness or invalidity insurance do The different kinds of incapacities are already explained above.

Compensation in case of temporary incapacity is given in all countries by way of daily or weekly allowances In most of the countries there is a waiting period, the object of which seems to be that of avoiding to put administrative machinery into motion on account of trifling injuries. Another object is to discourage malingering by making the worker bear the cost for first few days. The length of the waiting period differs in different countries—it varies from three days to ten or even fifteen days Even about the working of the waiting periods there are three different plans . Taking the waiting period to be of n days, (1) payment may commence from the $(n—m)$th day, (2) payment is made from the nth day, but if the incapacity lasts for $n—m$ days, where m is a certain number, then in that case retrospectively payment is made as from the very first day, (3) lastly, payment may be made from the first day, only if, however, the period of illness outlasts the waiting period.* The payments once started last until recovery, or until it is ascertained on the completion of medical treatment that a permanent incapacity exists A maximum period is set for the grant of temporary incapacity benefit Another arrangement worth noting is the mingling of two systems in some countries, viz., the workmen's compensation and sickness insurance It exists in Germany and some other central and eastern European countries. From the date of the injury, the sickness fund bears the expenses for the medical treatment and the payment of temporary incapacity benefit If the incapacity exceeds a fixed period, the further expenditure of the sickness insurance fund is refunded by the Workmen's Compensation Fund concerned

* *Compensation for Ind Accidents*—I L O , M 2, p 263

Methods of Payments

So far as the compensation for permanent incapacity and death is concerned, three distinct methods of payment are in practice. One group of laws, following the practice of Germany and France, gives pensions for the permanently incapacitated and for the widows and children. Another group of countries, the prominent among them being Britain and Spain with some American States, gives compensation in these cases in the form of lump sums. The third group stands half-way between the first two . It consists of most of the American States. These laws provide for the calculation of the benefits as lump sums, but for their payment in equal instalments over a limited period.

The payment of benefits in lump sums is open to two main objections, viz., (1) there is the fear of the money being squandered away or ill-used and then from the social point of view the value of such payments is therefore almost zero. (2) The lump sum is often fixed without reference to the age of the injured person In most countries, the payment is one-half to ten times the yearly earnings. In no case, however, is there any relationship between the extent of the pecuniary loss suffered and the compensation awarded. That the victim's age is an important factor in this matter can be made clear by one simple illustration . paying two persons of ages 25 and 60 the same amount for the same physical injury—it amounts to paying equal compensation for unequal loss.*

Payment in the form of pensions is easily seen to be the best method and it is gratifying to note that the tendency has been to adopt pensions as the normal form of compensation for permanent incapacity and death. Lump sum payments seem to be useful only in two cases . (1) exceptional cases on individual merit where they mean some valuable advantages for the beneficiaries and (2) in cases where the incapacity is very small, say, less than 10 per cent., so that pensions would amount to very small sums.

Amount of Compensation

The amount of the compensation is fixed at a proportion of

*I.L.O , Series M, No 12, op. cit., p 31

wages—as allowance for temporary incapacity. At common law there were chances of huge amounts being obtained as damages even for pain and suffering. So this compensation is, as already said, almost a compromise, being a moderate but sure payment. A rational criterion for fixing the compensation rate is not easy to devise. The majority of the laws now follow the standard of Germany's pioneer measure in granting 2/3rds of the wage loss. Some Acts have even raised it to 70 or 75 per cent of the basic wage. The British amount is lower, being 50 per cent. of the weekly wages In Britain the maximum sum payable is £600 Additional compensation is paid in only few countries for incapacity caused by an accident or disease, necessitating the constant attendance of another person.

The payment of cash benefits has not been without its problems · One problem has been the adaptation of the pensions to the cost of living This problem exists not only for workmen's compensation, but generally also for all social insurance schemes, but this problem has not been faced or tackled systematically. The procedure hitherto followed has been to wait till the situation of the pensioners or the insurance institutions becomes impossible and then to adjust the rate of compensation by *ad hoc* legislation. The British Act, it is worth noting, as amended in 1923, has provided that a change of 20 per cent up or down in the level of wages in the victim's occupation at the time of accident justifies a corresponding adjustment in his periodical payment * However, this rule has not much been seen in application because of the practice of lump sum settlement of claims for permanent incapacity Countries with State Mutual Fund should find it easier to evolve some similar or other system for such adjustment.

Evaluation of Permanent Incapacity

The second problem is that of the evaluation of permanent incapacity After the accident, before the worker recovers, he is in practice required to abstain from work during the healing period, when his incapacity is total But when that period ends, the result may be permanent incapacity in some degree Since accidents visibly affect a definite part of the body, the physical

* I.L.O., Series M, No 18, p 40

damage can be easily described more or less accurately. However, the problem is the extent to which the earning power has been reduced by whatever incapacity that remains, since it is this reduction that the workmen's compensation scheme seeks to indemnify. The intention is to assess such permanent incapacity with reference to ability to earn in some occupation that the victim can get into The factors to be considered are various, like age, occupation, sex, the state of the labour market and the workman's willingness to try at adaptation The assessment is very difficult, especially because of the last two factors.

Several attempts have been made to solve the problem Incapacity may be evaluated on the basis of three main conceptions* : (1) Physical invalidity · The loss of strength and fitness is evaluated by reference to the strength and fitness of a normal able-bodied and healthy person. No account is taken of likely economic or occupational consequences of the injuries It is assumed that schedules of injuries can be prepared, attaching to each injury a specific degree of incapacity or a percentage of reduction in earning power These schemes make no allowance for the very different consequences which the same injuries might have for persons differing in age, occupation and training. This method is followed in the major part of Australia, Chile, many American States, India, Italy and Japan

(2) Occupational incapacity . It is evaluated by reference to given employment or group of employments Only one undertaking or industry may be considered or whole occupations might be considered in assessment Such method is useful for specialised occupations.

(3) General incapacity for work · This conception is similar to (2) but only wider This conception is based on the remaining earning capacity in the general labour market This conception exactly suits the intention of workmen's compensation scheme , but its actual assessment is difficult and can be done only by the method of trial and error After taking all the relevant factors into consideration, the judge may decide on some amount

* For a detailed treatment of the problem, see *Evaluation of Permanent Incapacity for work in Social Insurance*, I L O , Studies and Reports, Series M, No 14 (Geneva)

But such a decision is likely to leave always room for complaint, since it is a matter of opinion. For this reason alone, a fixed schedule having binding force as in the first case seems to afford a better solution to the problem.

The method of evaluating incapacity consists in comparing two wage rates : one is the actual individual wage over a period prior to incapacity and the other is the presumed wage when the incapacity is evaluated, i e , that wage which the worker is expected to get with his remaining capacity.

Minimum Degree of Incapacity

Another problem that might just be mentioned here is that of the minimum degree of incapacity—the question whether the reduction in the earning capacity is substantial enough to justify the award of a benefit So in certain countries it is laid down that a minimum degree of incapacity must be reached before benefit can be claimed. Such a minimum applies in Germany, Bulgaria, Brazil, Italy, Norway and some other countries. It does not apply in France, Great Britain, Japan, Chile and some other countries The main argument in favour of the establishment of a minimum degree of incapacity is the theory of margin of error In the evaluation of incapacity, there is always that margin of error which varies inversely with the degree of incapacity In Germany this minimum is fixed at 10 per cent. and no evaluation is formulated where the degree is less than that figure. Other arguments in favour are · that small benefits have no real value, fear of undesirable psychological effect of small benefits, their unfavourable influence on vocational and physical adaptation and, lastly, that financially these small benefits result in heavy expenditure due to great frequency of minor injuries. The most important objection to a minimum degree of incapacity is that the factor of severity of loss should affect only the amount of compensation and not the very right to it.

In recent years there has not been much of a change in benefit rates. From the point of view of social considerations there has been one advance and that is the introduction of dependants' allowances. Such dependants' allowances are paid out of the funds of the workmen's compensation schemes in some countries,

while in other countries like Australia, Belgium and France they are paid out of other funds

Medical Aid

Since the industrial injuries affect the worker physically, benefits in kind in the form of medical aid are very important, the purpose being to maintain as far as possible the physical integrity of the injured and to cure his incapacity The medical aid is important not only to the worker, but also for the employer and the insurer whose expenses will be less according as the final incapacity is less serious and lasts for a shorter time Even for the community it is important since it is interested in having as large a number of productive labour as possible and thus reducing the social burden.

Because of these advantages medical and pharmaceutical aid has become a normal feature in most compensation schemes, the cost of such aid being defrayed either by employer, accident insurance institution or sickness insurance fund However, in some countries like Great Britain, (also India), no provision has been made for medical aid, although in the Dominions such provision is made At first such provisions in earlier laws were only superficial. It was only after the Great War of 1914-18 that more generous provisions for medical aid appeared

Even then medical care of the sickness insurance type is not adequate for accident injuries, which require specialised and complete medical care , for instance, the supply of artificial limbs and similar surgical appliances is very important Such provision is absent in most countries Here again a centralised State Accident Fund is obviously the most convenient agency for such reform Since it can have its own staff of medical supervisors and its own clinics or can contract with clinics complying with the standards it prescribes The most advanced country in this respect is Germany, where the most ideal provisions for medical aid are made, the Accident Hospital of Dr Boehler in Vienna being a typical illustration

Rehabilitation

The recent development in the field of medical aid is the new

idea of "rehabilitation" The aim has been the maximum restoration of working capacity, for enabling the injured workman to compete again in the labour market The new policy consists of two stages the first is that after an operation (if necessary), care is continued to restore the fullest mobility and strength to the affected limb Artificial limbs are supplied and renewed by the insurance institutions not only for curative purposes, but also for permanent use This is by far the most important part of benefit in kind. Thus the first phase is complete medical care. The second stage is specially important for those who by virtue of their disablement must change their occupation. And for such persons training facilities are provided and they are helped in finding new employment. In many countries the first is the only phase seen in action, since it is believed that there are very few permanently disabled persons who must change their occupation, and the first phase adequately helps them to return to the old occupation This rehabilitation in its most complete form is best seen in application in Germany, Spain, Cuba and Soviet Russia In Germany, it has even been made compulsory for employers to engage a certain number of disabled persons in their undertakings In some cases specific posts are set aside in preference for the disabled Great Britain, so far lukewarm in this respect, has made, since the outbreak of World War II, arrangements for the training and placement of the disabled

Administration

Insuring the Risk

The organisation and administration of the workmen's compensation schemes has been moulded differently by different national laws While some laws have only declared the employer's liability, leaving the question of insurance to the option of the employer, others have made insurance of his liability compulsory, not touching, however, the question of the manner of insurance This divergence in national laws may be traced to two distinct and quite opposite principles, regarding the nature of industrial accident insurance The first is that this

insurance is primarily insurance of the employer only and this principle has dominated the optional insurance legislation. According to the second principle, such insurance can be considered only as insurance of workers, and this idea has been the keynote of compulsory insurance legislation. Both these types of legislation are almost the same in effect, because in the former case the employers, having found that insurance is the best method of meeting their liability, generally go in for insurance Very few carry their own risk The risk is insured with either private commercial insurance companies or the employers' mutual associations.

Socially also the insuring of the risk is important It is not sufficient merely to assert the principles of occupational risk and employer's liability and fix compensation It is even more important that the payment of that compensation be ensured or guaranteed One method has been to make compensation the first charge on the property of the debtor But this may prove inadequate Many efforts have been made at discovering systems affording greater security, e g , constitution of National Guarantee Fund, compulsory insurance, etc And of all these systems, insurance with its many natural and social advantages seems to be the most convenient and useful

The most common insurance carriers have been . Private commercial insurance companies, employers' mutual associations or the State mutual fund The last is found to exist only in cases where the national laws have provided for one such monopolised fund The first two are seen where insurance is optional, or made compulsory without reference to its method Employers' mutual associations have been specified as insurance carriers by some compulsory laws * While insurance is of course

* The various national laws may be grouped as follows —

(1) No compulsory insurance and funds with no special security or guarantee —Great Britain, India, South Africa, Brazil, Greece, and some Australian and Canadian States

(2) No compulsory insurance but funds with special security — Argentina, Belgium, Bolivia, France and Spain

(3) Compulsory insurance, with liberty to choose the insurer —Chile, Cuba, Denmark, Finland, Portugal, Sweden and some Australian States

(4) Compulsory insurance, with insurance by employers' mutuals —

useful in itself, insurance by the first two methods stated above is not the most useful Since the greatest economy is essential in the administration of workmen's compensation schemes, competitive insurance is definitely wasteful for these purposes. Monopolistic insurer, in the form of a State mutual fund, has an obvious advantage in the economy of operation. Such monopoly insurance is again useful for the much-needed prompt and equitable settlement of claims Monopoly insurance under State supervision gives the best results

State Mutual Fund

The State mutual fund is actually the best carrier of all accidental risks Endowed with the monopoly of accident insurance, a State mutual fund, when competently managed (free from political upheavals), possesses some definite and valuable advantages for both the employer and the worker The advantage that the employer can enjoy is that of low premiums, since the element of profit is absent Also some employers, whose risk might not have been accepted by the ordinary insurance companies because of its intensity, can conveniently insure it with the fund A cheap and efficient method of collecting premiums can be followed Insurance with a State mutual fund will further give advantages that are impossible when insurance is carried by private commercial bodies Insurance can be automatic for all the workers within its scope, and the payment of admitted claims be perfectly guaranteed. Then again economy in administration enables improvement to be made in benefits. Another very important advantage is that friction between the claimant and the employer is removed, the beneficial result being that workmen's compensation is then administered in the real interests

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Germany, Austria, Czechoslovakia, Japan, Latvia, Luxemburg and Poland

(5) Compulsory insurance, with a specific insurer —

(a) With an autonomous institution Italy (Agriculture) and Switzerland

(b) With a State fund Bulgaria, Norway, Russia, the Australian State of Queensland, some Canadian States, Italy, Japan and some American States

This grouping has been based mainly on facts given in I.L.O., Series M, No 2, op cit , pp 366-445

of the workers with less litigation The participation of workers' and employers' representatives in the management of the fund secures that the law is administered in a fair spirit, and justifies the substitution of the fund itself for the courts as the arbitrator of claims These particular advantages of the State mutual fund may be illustrated by an actual example In Great Britain insurance is optional Of course the majority of employers do insure, but there is no State mutual fund The result has been an enormous amount of litigation and consequent squandering away of money Again administrative expenses are heavy The Holman-Gregory Committee reported in 1920 that, "during the last 5 or 6 years, the employers had to pay £100 in premium for every £48 paid out in benefits to the injured workman."* In 1936, 63.66 per cent of the income from premiums was expended in payments of compensation or damages, while 33 31 per cent went into payment of commission and expenses of management It must not be forgotten that the 63.66 per cent included legal and medical expenses.† The State mutual fund, wherever it exists, has resulted in much lower ratio of expenses and lesser volume of litigation

Another very important advantage that the State mutual fund affords is that because of its compactness it can provide the best facilities for medical aid and vocational and physical rehabilitation. The loose organisation which otherwise arises in the absence of a State mutual fund is obviously inconvenient for such purposes

Method of Claiming Compensation

A brief reference might be made to the method of claiming compensation by taking the illustration of Great Britain Before compensation can be obtained, notice of the accident has to be given as soon as practicable after its occurrence and before the workman has voluntarily left the employment Failure to give notice may debar the workman from taking proceedings to enforce his claim. The rigidity of this and the next rule often works hardship on ignorant workers. After giving the notice, a claim

* Quoted in Robson, op cit, p 59

† *Ibid.*, p 59.

has to be lodged with the arbitrator within six months of the date of accident or death, if it is not otherwise settled by agreement Most cases of serious incapacities are the subject of dispute and litigation, and court proceedings have their obvious disadvantages for the worker.

From this brief study of the workmen's compensation law in different countries in all its aspects like scope, risks, benefits and organisation, it appears that workmen's compensation on the whole has reached almost perfection only in few countries like Germany. In most countries there are some shortcomings yet. The question of occupational diseases does not now generally arise, except in the manner of their inclusion in the laws. Apart from some minor things, improvement and reform seem to be wanted *chiefly* in two directions : Firstly, the medical aid should be complete including even the specialised aid, and must be accompanied by the supply and renewal of artificial limbs. Also the second phase of rehabilitation, viz., the vocational training and placement of the disabled, must not be lost sight of. Secondly, a State mutual fund having a monopoly for accident insurance must be established in all countries Such a fund will, with all its advantages, enable the administration of the workmen's compensation scheme to be carried in a proper spirit and in the real interests of the worker.

A Standard Scheme

The standard scheme of workmen's compensation insurance evolved by Mrs. Barbara M Armstrong indeed deserves close study. Writing on workmen's compensation in *Insuring the Essentials*,* she says " The study of the different measures suggests the outline of a standard measure that would (1) be compulsory and apply to all injuries including occupational diseases, suffered by the worker while at his job, (2) have an all-inclusive coverage and except no groups of employees, (3) require insurance and offer to employees either a monopoly or a State insurance carrier in which self-employed workers also should be allowed to insure their risks of industrial injury, (4)

* pp 281-2

provide retro-active waiting period to eliminate cases involving trifling accidents without reducing the compensation of the worker suffering other injury, (5) afford full medical, hospital and other remedial care to cure or relieve, (6) include a minimum compensation to prevent the compensation of the low-paid worker from falling below the subsistence level, (7) include a maximum weekly compensation high enough to scale down the compensation only of the exceptionally highly paid worker, (8) standardise weekly benefits at a percentage of wages, high enough at least to prevent the average working family becoming dependent, (9) provide for the dependants left by the worker suffering fatal injury, using the family allowance method of varying the benefits with the number of dependants left, (10) compensate the disabled worker for the entire period of disability, (11) rehabilitate as far as possible the worker whose injury stands in the way of his following his usual occupation, (12) provide for administration by a board or commission supported by a sufficient appropriation to make possible a real enforcement of the law for the benefit of the workers, and (13) capacitate the administration board to make and enforce safety orders for the prevention of industrial accidents and occupational diseases."

CHAPTER III

SICKNESS INSURANCE

ALTHOUGH like workmen's compensation, sickness insurance received increased attention after the development of industries with the introduction of machinery, it has a history of its own that extends far into the mediæval times. The importance of protecting the workmen from the hazard of sickness was recognised even then and the guilds of the middle ages often provided for the assistance of their members in case of sickness and injury These guilds were mostly founded on the occupational basis The protection was granted not from any social motive, but only in the economic interests of the masters. As a rule the benefits were granted in the shape of a loan, to be repaid by the workmen when enabled to work after restoration to health. Obviously the field covered by these activities was very small.

The guilds then in course of time having become too strong and tyrannical were duly abolished The State was at that time completely nonchalant about the affairs of individual persons under the spell of the doctrine of laissez-faire Some stray attempts were made by the employers, for reasons altruistic or selfish, for the protection of the worker against sickness. Being confined to the factory, the attempts proved too weak Again they were looked upon with distrust and suspicion by the workers Similarly on the part of the workers, with the realisation of their position as a social class, attempts were made to organise themselves and in this process sprang relief funds. And in course of time mutual aid societies were formed, especially in Great Britain, and this movement soon spread to the continent They were mainly based on trades.

Even the advent of the industrial revolution had not affected the attitude of the State But towards the middle of the nineteenth century with the intensification of industrialisation, the

State slowly changed its attitude from laissez-faire to one of active interference for the good of those people who had suffered from all the evil effects of industrialisation The State now took an increasing part in the problems of labour welfare, and amongst other things began to concern itself with the organisation of insurance against sickness

Sickness insurance now started developing through two different channels. So far there were formed in many countries mutual aid societies on the initiative of some individuals and these had been administering sickness insurance. Some States carrying on the tradition of laissez-faire thought it better to encourage formation of such societies by private enterprise and initiative, and to facilitate such formation adopted legislation that gave such mutual aid societies special legal status more favourable than that of ordinary commercial firms or other associations, and in many cases the State provided financial assistance from public funds Such legislation was adopted in Italy (1886), Sweden (1891), Denmark (1892), Belgium (1894), Finland (1897), France (1898), Spain (1908) and Switzerland (1911).

On the other hand in some other countries the State "as guardian of public health and national prosperity considered it both a right and a duty to impose compulsion" The first country to introduce a compulsory scheme of sickness insurance was Germany The person mainly responsible for this was Bismarck In 1883 the scheme was introduced for industrial workers. In 1885 it was extended to commerce and to agriculture in 1886. This first sickness insurance scheme is said to be the result of a political, rather than social, motive "This creation of Bismarck's, so keenly opposed at first by the German working classes, was doubtless inspired by a political motive. Its purpose was to attach the workers to the State as the defender of the capitalist system It aimed at rendering innocuous the numerous relief funds connected with trade unions, which might have been dangerous weapons in a class struggle By rendering secure the means of subsistence of the working class, his plan raised a solid barrier against social propaganda It is for this reason that in the system of compulsory social insurance, introduced between 1883 and 1889, it is compulsory not only to

insure, but to belong to a specified fund. Whatever may have been the intentions of its originator, it is undeniable that the German scheme has exercised a great influence on the legislation of a large number of other countries."*

Soon the other countries followed the example of Germany, especially in the twentieth century, when Luxemburg (1901), Norway (1909), Serbia (1910), Great Britain (1911), Rumania and Russia (1912) introduced compulsory schemes The post-war period saw their introduction in the newly-created European States and also in France, the main supporter of voluntary social insurance Compulsory insurance has not yet spread to countries with late industrialisation, except Japan (1922) and Chile (1924). It has nevertheless shown itself, so to say, to be a natural consequence of a specific state of economic and social affairs.

Scope

The scope of the sickness insurance laws primarily depends upon whether the type of insurance adopted is compulsory or voluntary The object of a voluntary scheme is merely to assist persons to insure It therefore sets up a system of insurance and defines the rules for its working It further defines the persons who may take advantage of the insurance system. It, however, leaves those persons free to join the scheme or not as they wish It thus defines the maximum scope of the law. And this may be and actually is far wider than the actual field covered On the other hand a compulsory insurance law does not rest content with only setting up a system of insurance. It not only defines persons entitled to insurance, but makes it compulsory for them to insure, under conditions laid down by the law. So the scope of the compulsory system of insurance is precisely defined by law

Voluntary Insurance

Considering the scope of the voluntary type of insurance first, one fundamental difference is obvious between the compulsory and the voluntary systems, as noted above The principal condi-

* *International Labour Review*, May 1927, p. 844.

tions for the insurance law to apply in the case of voluntary insurance is that the individual person must have joined the insurance society voluntarily. He is an insured man first in fact and only then in law. This freedom to belong to a mutual aid organisation is restricted only by the legal limitations that lay down the types of persons entitled to insure. Similarly the insurance societies are generally free to grant the application for admission to insurance or to refuse it. Generally all institutions are free to fix their conditions for admission—which have a tendency to broaden.

Physical conditions are imposed so as to allow only safe risks to come in These refer to the state of health and age of the insured in the beginning, but sometimes their effect is that sickness insurance is not generally open to exactly those most needing it. Some countries have therefore tried to facilitate such admissions as far as possible The age limits vary from 16 years (or 18) to 40 (or 45) years It might be incidentally noted that certain societies in France, Belgium and Switzerland have formed school insurance funds for the insurance of school children *

The economic conditions may be divided into two classes . In Denmark and Finland only those workers who earn wages below a certain level can join the system. On the other hand, in Spain, perhaps to safeguard the finances of the societies opposite conditions are levied. There are also to be found residential conditions which, by ruling that a person loses his membership, when he leaves the area, require the person to reside within the area of the fund This condition is levied to remove administrative difficulties In Switzerland the existence of the right of " free transfer " (from one fund to another) has rendered such a condition unnecessary. The condition of nationality is rarely found.

The scope of voluntary sickness insurance is thus not precisely defined by law The actual extent of the working population to which the law will apply depends on the use made by the individuals of their right to apply for insurance and by the societies of their power of refusing admission Therefore,

* International Labour Office, Studies and Reports, Series M, No 7, *Voluntary Sickness Insurance* (Geneva, 1927), p. XXX.

although the legislation in various countries may be similar, the actual scope may vary considerably While in Denmark 57 per cent. of the total population is insured, only 14 per cent. is covered in Belgium. In spite of continuous and tenacious efforts and development, voluntary sickness insurance has been making only slow progress. It has failed in most cases to cover more than 10 per cent. of the total population or more than a small portion of the working class The scope of voluntary insurance has been too narrow in practice Many persons fail to insure either by improvidence or through lack of means and low wages, so that many of the poorly paid working people, exactly those who have the greatest need of mutual aid, are unable to benefit from insurance. The number of members of voluntary societies is thus small, and is always seriously affected by economic crises that result in unemployment and reduced wages. The financial resources of the mutual aid societies, which are generally the agencies for the voluntary sickness insurance, are very low, because of the excessive number of such societies, a large majority of which have only a small membership Therefore the benefits are small and inadequate and a considerable burden of loss falls on the worker Again the geographical distribution of the societies is disorderly and unsatisfactory While there are too few societies in the rural areas, there are so many in towns as to interfere with each other so much so that often one society can grow only at the expense of another. The divided effort results in gaps and overlapping, weakening the social effectiveness of mutual aid. Voluntary sickness insurance has indeed proved an inadequate and unsatisfactory solution to the problem of workers' insecurity on account of these shortcomings.

Compulsory Insurance

The only effective remedy has proved to be the compulsory sickness insurance. This view was expressed by the Tenth International Labour Conference (1927) Of course its introduction was not without opposition in the beginning. For instance, in Great Britain "Lloyd George's 'nine pence for four pence' National Health Insurance Act of 1911 came into force against bitter opposition: The doctors said it interfered with their

professional status and freedom, trade unions and friendly societies said it trespassed into their preserves, the insurance companies disliked the State dabbling in insurance in any manner, and certain far-seeing Socialists, notably Keir Hardie and Philip Snowden, deplored the introduction of quasi-insurance social services based on contributions, they preferred the State to provide these for the whole community out of taxation "* Such an opposition was met by compulsory insurance almost everywhere, but by its numerous advantages it soon gathered support on all sides. To take Great Britain again. "The doctors, through the British Medical Association, put out suggestions for reforming National Health Insurance, but do not want to see it scrapped, the friendly societies and the insurance companies have become, with few exceptions, a vested interest on the side of National Health Insurance, and the Labour Party has done its best in the past to discredit the idea of tax-provided social services by dubbing these 'assistance' and by extolling, by comparison, the magic of 'insurance' "

In the compulsory sickness insurance, the basic idea is the imposition of the legal obligation to insure only on those whose means are presumed to be insufficient to enable them to carry the risk of sickness single-handed Therefore all compulsory laws exclude persons with over a certain minimum income from the operation of the scheme The laws, as they now exist, may be divided into two classes. (1) laws applying to wage-earners alone under a contract of employment, (2) laws intended for all workers of small means, whether wage-earners or only independent workers (adopted only in Portugal and Chile)

I. Wage-earners' Schemes

In almost all the schemes of compulsory insurance of wage-earners, the definition of the term "wage-earner" has been avoided To be liable to insurance against sickness a person must be engaged in (1) work in a dependent position, i.e, work for an employer, (2) work under a contract—oral or written, express or implied, (3) work in a job which is his ordinary means of livelihood—his principal source of income.

* *Social Security*, Ed. Robson, p. 75.

This general formula may not apply equally to all branches of economic activity. Sickness insurance was first applied to mining and sea-faring, these occupations being considered particularly dangerous. Later it was extended to industry and commerce, and to agriculture some time after, the tendency being to include all wage-earners.

Compulsory insurance now applies to industry and commerce in almost all countries except Rumania and Japan where only industry is covered. While the exception of small factories and of undertakings where the work is not unhealthy and dangerous is common enough in workmen's compensation laws, there is no such distinction made in the case of sickness insurance in most countries, except Esthonia and Japan, since sickness, unlike accidents, is a common hazard for all. In Japan and Esthonia however there is one single system for both accident and sickness and this explains the restrictions for sickness insurance to some extent

The application of compulsory sickness insurance to transport affects seamen and railwaymen In most countries seamen are protected by maritime codes which require the shipowner to take care of the crew at sea, until they are cured or return home. So sickness insurance for seamen becomes necessary only in the case of prolongation of sickness beyond the period of shipowner's liability Seamen are covered by the general schemes in most of the countries including Germany, Great Britain, Ireland, Russia, etc , while special schemes cover them in France and Belgium Similarly the railway employees may be covered by the general scheme or a special scheme In most cases, non-manual workers are exempted since they are entitled to or are in a position to secure similar benefits by terms of their employment.

It is in agriculture that sickness insurance has made slow progress At first compulsory sickness insurance did not seem quite necessary because of the patriarchal character of relations between the employer and the workers in agriculture. Again there was the difficulty of organisation on account of the sparseness of the agricultural population In recent years however the family character of the relation between the employer and

worker is disappearing and need for social protection is being recognised. And in spite of the difficulty of organisation, compulsory sickness insurance now covers agricultural workers in many countries either by extension of old schemes or absence of distinction in new schemes. Several South American States, notably Chile, are attacking the problem of agricultural workers' insurance by advancing district by district, first equipping the area to be served with the necessary minimum of facilities and then putting the insurance into effect. By 1939, agricultural workers were covered in half a dozen schemes.

Sickness insurance is similarly being extended in a number of countries to domestic servants and home workers, since they are also equally liable to be affected adversely by sickness.

The question of sickness insurance for the public officials relates not to cash benefits but only to medical benefits in kind. They may be covered either by the general scheme (as in Norway and Russia) or by special schemes providing medical benefits only. The commonest practice, however, is to exclude public officials on the ground of their being otherwise entitled to or in a position to secure treatment at least equivalent to that of the workers under the general scheme. Such equivalent treatment does not however usually imply that medical attendance is provided.

Limiting Conditions

There are a number of exceptions to the application of compulsory insurance, and these limit the scope of sickness insurance Some arise out of the occasional or temporary character of the employment, for instance, most laws exclude occasional employment, subsidiary employment—defined to be so either by the nature of the work (as in Great Britain) or by the extent of dependence of the worker on it,—and temporary workers—distinguished from the occasional workers by the fact that their ordinary means of livelihood is wage-earning work In Great Britain workers engaged in occupations prescribed as "subsidiary" are exempted, if they show their principal occupation to be something else Some countries like Germany, Austria and Czechoslovakia, do cover temporary workers, defined as those working for less than one week.

Other limitations arise from the personal qualifications of the individuals. There exist generally conditions—physiological, economic or political Amongst the physiological conditions, age limits, being indeed unnecessary, exist only in three countries, viz., Norway, Great Britain and Ireland The condition of working capacity is universal · that the worker must be capable of performing work. As for the political conditions, nationality is generally ignored and foreigners and nationals are placed on the same footing. The economic conditions relate to the earnings of the workers In most of the countries they apply to the non-manual workers only Maximum earning is fixed at a certain level and all non-manual workers earning more than the maximum are exempted. The limit may be calculated on the basis of wages alone (as in most of the countries) or on the basis of all income from whatever source (as in Norway) A special reason for this exclusion in some cases has been the desire not to restrict unduly the area of private practice of the medical profession The salary limits in some cases have been fixed rather low ; but the salaried employees do not seem to have any strong objection, in fact many appreciate their exemption as a social distinction In Great Britain the limit was raised from £250 per year to £420 per year in 1941

II. "Popular" Schemes

Another type of compulsory sickness insurance is one that covers all workers of small means The workers may be wage-earners or only independent workers The liability is not determined by a contract of service The economic strength and security of the individuals is the real criterion Such scheme exists only in Portugal, Chile and some Swiss cantons The Portuguese system is the widest—covering " any person engaged in an occupation which has been recognised as worthy and honest by custom and tradition and has been sanctioned by the law "* In Portugal, the maximum income level is 900 escudos per year and in Chile it is 8000 pesos a year. Other limitations, similar to those discussed above, may exist, (e g., there is the

* International Labour Office, Studies and Reports, Series M, No 4, *Sickness Insurance* (Geneva, 1925), p 39.

age limit in Portugal—15-75), but the chief value of such schemes lies in the fact that a genuine effort is made to cover all needy persons

In a large majority of the countries, however, sickness insurance is confined to the wage-earners only The proportion of insured persons varies from 3 to 35 per cent. of the total population and 15 to 86 per cent of the employed population The variations are explained by the variable importance of the wage-earning class in each country

Other factors affecting scope

In all schemes of compulsory sickness insurance, two groups of people are often left out of the scheme : (1) Those who cease to be employed and, therefore, to be eligible to come under the compulsory scheme, and (2) independent workers of small means, if those schemes are restricted to only wage-earners in particular. Almost all such schemes provide voluntary insurance for such groups, although such voluntary insurance has proved to be of little value, since a health test is sometimes imposed and since the insured has to pay the entire contribution himself

When a person has left the employment that made him liable to insurance, he is generally allowed to continue his insurance voluntarily. Such continuation is generally easy, although not without conditions There are five types of conditions : (1) Income . This exists only in Hungary—there the maximum annual income is fixed at 24,000,000 crowns per year (2) Nature of occupation : The person must remain essentially a wage-earner or be unemployed—this also applies only in Hungary. (3) Sex In Great Britain and Ireland married women are excluded from voluntarily continuing insurance (4) Duration of compulsory insurance This condition exists in over half a dozen countries In Great Britain it is hundred and four weeks, in Germany it is twenty-six weeks in the previous year or six immediate prior weeks. (5) Time for application : Such a period is necessary for the obvious reason that otherwise the persons concerned may wait till they are ill or debilitated This period varies from country to country In Great Britain it is twelve months, four weeks in Austria, Czechoslovakia, Hungary and

Poland, three weeks in Germany and ten days in Japan. Notice of desire to continue insurance must be given within this period. The long period in Great Britain is explained by the qualifying period there of two years (hundred and four weeks) of membership of compulsory insurance fund and it must not be forgotten that during those twelve months (within which an application for continuing under the voluntary insurance scheme must be made) the persons concerned are entitled to free sickness benefit.

Again, most of the compulsory sickness insurance schemes, covering wage-earners only, provide voluntary insurance for some of those who are outside the scope of the law. The important group here is that of the independent workers of small means. Only about eleven countries provide for this ; (Great Britain does not provide for such extension, Germany does). For their admission economic and physiological conditions are imposed : maximum salary, age limit, certificate of good health, etc. No physical conditions exist in Bulgaria, Greece and Lithuania.

The position of the unemployed persons with regard to continuation of sickness insurance is worth noting. A person, when he becomes unemployed, can continue as a voluntary member and contributor. But it is obviously difficult for him to pay his contributions which are now double his former ones (with employer's share), in the absence of any earnings In order to enable the involuntarily unemployed to retain the advantages of sickness insurance, two different methods have been used to maintain their membership of the insurance fund : (1) The worker remains entitled to all or part of the sickness benefit, without being required to pay contributions If he falls ill, the cost is borne by the insurance fund ; (2) there is a regulation for the unemployment relief institution that the contribution to the sickness insurance fund in respect of every unemployed worker must be compulsorily paid by unemployment insurance institution.* The first method is used in Norway, Poland, Austria and Czechoslovakia The Norwegian Act does not limit the period of benefit during unemployment, while others do (from six to thirteen weeks). In Germany, the unemployment fund is required

*I L O, Series M, No. 4, op cit, p. 32.

to pay the whole sickness contribution of the unemployed person *

Two other factors, besides that of the existence of voluntary or compulsory system considered above, that affect the scope of sickness insurance, are the territorial limits and the time limits As a legislative measure, the law applies within the limits of the territory of the State concerned The territorial basis of insurance finds expression in the employment within the territory only involving the liability to insure. Therefore the result is that on the positive side, liability to insure devolves on those paid workers who carry on their occupation in the country. On the negative side, insurance is not compulsory for workers who, though resident within the country, do not carry on their principal occupation within the country, nor for those whose work in the country is temporary. As for the time limits, insurance commences either when the individual applies and his application is accepted in the case of voluntary system, or when he gets employed in a work involving insurance liability in the case of a compulsory system The insurance continues until he ceases to be a member or ceases to work in an employment involving liability to be insured.

Risks Covered

Sickness

Sickness insurance schemes almost universally cover three important risks It must be remembered that in all three the protection granted is against economic loss and related to medical cure The first risk covered is that of sickness in its economic and medical (curative) aspects. It must be sickness of non-occupational origin. Sickness represents a double risk for the workers · (1) illness requiring medical treatment and (2) cessation of income through inability to continue at work. While sickness insurance is concerned mainly with illness due to diseases, it has to cover non-occupational accidents, which are, however, relatively few

According to the sickness insurance laws, sickness is not exactly

* M R Carrol, *Unemployment Insurance in Germany* (Washington, 1929), p 59.

what is commonly understood by the term, but it is that bodily or mental condition of the insured worker which has reached a pitch of abnormality necessitating medical treatment or suspension of employment.* Since this state of the body or mind can be ascertained to be present only by a medical practitioner, such a medical certificate is necessary However, the non-occupational origin of the sickness need not be proved, because the sickness insurance institution is required to give immediately without question all the necessary medical care The conception of sickness has been broad enough from the beginning. Yet the notion of incapacity giving rise to the claim for benefit has been affected in the direction of a change of emphasis from the necessity of medical treatment to suspension of employment, mainly because of the great importance attached to the preventive side of sickness insurance. Formerly the term " incapacity " meant that a man felt too ill to go to work and this subjective impression was confirmed by medical diagnosis Nowadays, however, incapacity has come to mean a condition in which continuance of employment would endanger the patient's health or delay his recovery

Maternity

The second risk covered by sickness insurance laws is that of maternity for the benefit of mothers and children. Is maternity an illness ? Maternity has all the outward attributes of a serious illness it is accompanied by pain and suffering, there is substantial measure of danger to health and even to life, it requires the attendance of a physician and a medical establishment, and results in a fairly extended period of disability from work. On the other hand, maternity is a voluntary and self-inflicted condition Considered along these lines, this would make an excellent subject for controversy ; but there is no doubt that though voluntary and self-inflicted, maternity is a necessary condition both from the point of view of the individual and of the State. Anyway, the maternity benefit has proved to be in actual practice an essential feature of most sickness insurance schemes. The loss of wages resulting from

* I.L.O., Series M, No 4, op cit., p. 71

abstention from work due to confinement for some time before and after it is compensated for and the necessary medical care is provided. The covering of this risk for the millions of workers is important not only from the point of view of excess of births over deaths, but also as a preventive measure of sickness insurance for the better health of the future generation. And now generally this risk is covered not only for insured women, but also for the family of the insured person, at least his wife.

Death

Lastly, the sickness insurance laws cover the risk of death after illness. It must be noted that this protection is not like that of the survivor's benefits under pension insurance, but only a benefit granted to cover the funeral expenses incurred upon the death of the insured person Sickness insurance thus rounds off the protection given against expenses and loss of wages incurred through illness Logically this benefit really does not belong to the structure of a sickness insurance system, but it is related in so far as death in most cases follows immediately upon a period of illness, and imposes on the bereaved family a heavy financial burden Only Great Britain does not cover this risk under the National Health Insurance Act of 1911, which is explained by the fact that because of the great development of industrial assurance in Great Britain, Lloyd-George by excluding this benefit from the compulsory insurance scheme made a deal with these interests that they would not oppose the scheme of compulsory National Health Insurance

Cash Benefits

These risks whenever they materialise cause an economic loss to the worker through abstention from work. Therefore the insurance funds grant cash benefits which consist in the award to the beneficiary of a sum of money with which to buy goods and services, thus compensating at least in part for the economic loss incurred by the insured. This daily sickness benefit is payable during incapacity for work caused by illness. All systems of compulsory insurance guarantee its payment to sick persons who are unable to work, the amount and duration

of the benefit being defined by the law.

The cash benefits are usually payable to all insured persons only upon the satisfaction of some conditions. These conditions may be divided into three types · (1) Physiological condition, (2) Legal conditions and (3) Waiting period. All of these show considerable variations in the different countries.

Physiological Condition

The physiological condition, which is universal, is determined by the very purpose of cash benefit The insured person must be unable to continue carrying on his occupation owing to sickness The sickness to give a right to the benefit must be of a given severity. The symptoms must be such as to justify a belief that the state of health will be worse, in case the sick person is not trusted or is allowed to go to work. It is not enough if only simple care is required. Sickness, according to the insurance laws, is that abnormal bodily or mental condition which prevents the individual from working at a remunerative occupation or entails medical expense or results in both. The validity of claims for compensation is decided by the effect of the sickness on the capacity of the person suffering therefrom to perform his ordinary work. However, it must be noted that in cases of short-period incapacity only the normal occupation of the insured person is taken into account, while for the payment of disablement benefit, account is also taken of other occupations in which he might be expected to engage. As an illustration the German law may be stated : " A person is considered unable to work if he cannot continue to follow his former occupation or can do so only at the risk of aggravating his condition. The incapacity is considered to exist, even if the sick person might earn his livelihood by undertaking other work."* As a rule the cause of disease does not affect the right to sickness benefit, unless it lies in an industrial accident or in an act which is a punishable offence or has been performed wilfully in order to produce sickness About nine-tenths of the total volume of

* Explanatory Memorandum to the Social Insurance Code, p 155, quoted in I.L O , Studies and Reports, Series M, No. 6, *Compulsory Sickness Insurance* (Geneva, 1927), p 178

temporary incapacity among employed persons generally is of non-occupational origin * When illness is of occupational origin, the question is whether the loss will be borne by the sickness insurance institution or the accident insurance institution The worker can claim compensation from either fund. If he does not enforce his claim against the accident fund, the sickness fund generally has to pay him the sickness benefit and then act on his behalf in order to reimburse itself from the accident fund. In Russia, the sickness insurance institution is always liable for sickness whether it be occupational or not. In Great Britain and some other countries the sickness fund is liable to pay benefit only in so far as it exceeds that paid or payable under other relevant Acts regarding occupational injuries. Further self-inflicted illness is excluded from the grant of sickness benefit Of course, proof of such illness is so difficult that this restriction is insignificant. Limitations based on alcoholism or sexual immorality are very rare † Lastly, the insurance institution has to be informed of the sickness in a prescribed manner, as for instance, by means of a medical certificate. Though the institution is not compelled to submit to this proof, it cannot oppose it unless it can produce medical evidence to the contrary.

Qualifying Period

The legal conditions necessary to be satisfied are two : one relating to the period of membership and the other being the residential condition The first is a qualifying period during the currency of which the insured person must belong to a sickness insurance institution and fulfil his financial obligations arising out of his membership of it for a minimum period In voluntary sickness insurance schemes, the imposition of such a period is quite common because of the possibility that many persons might join in when they are almost or actually ill In Denmark this qualifying period for the voluntary sickness insurance scheme is fixed at six weeks Such a period is fixed also for the supplementary voluntary insurance afforded under a general compulsory scheme. In Germany such a period is of six weeks.

* I.L.O., Series M, No 18, op. cit, p 43.

† *American Academy Annals*, op cit, p 114

Although the qualifying period may thus be imposed for voluntary schemes, there does not seem any sound reason for which to have it in the case of compulsory schemes. The insured person cannot obviously belong as a compulsorily insured member to sickness insurance institution, before he is engaged in an occupation rendering him liable. The insured status must be automatic for him. Again, as to the regular payment of contributions during the period, it must be noted that his contributions are generally paid by the employer. On these grounds no such qualifying period is imposed in a number of compulsory sickness insurance systems, e.g, those in Austria, Czechoslovakia, Esthonia, Germany, Hungary, Japan, Latvia, Norway, Poland and Russia. However, some national schemes do require such qualification, for instance, in Great Britain the period is twenty-six weeks with twenty-six weekly payments, in Portugal it is six months.

Residential Condition

The other set of legal conditions is the one relating to residence of the insured person. This condition is laid down for the purposes of administrative convenience. As a general rule, the insurance institution is liable to pay benefits only to the claimants residing within its district. The exact position of a claimant outside the district varies according as he is living abroad or only in the country though outside that particular district. In the former case he is not generally entitled to benefit, though in some cases concessions may be made, as, for instance, when the insured person leaves the country with the consent of the institution. When, however, the person is outside the district but in the country, the claim is subject to some minor restrictions only, though generally wherever possible the claimant can apply to the nearest district fund and get assistance, while this latter fund gets indemnified by the proper fund.

Waiting Period

The third condition of a " waiting " period is almost universal. The claimant is not entitled to sickness benefit from the first day of his illness. He has to wait till a fixed period of time

elapses. The purpose behind the imposition of such a period is the prevention of abuse of the sickness benefit and to avoid overburdening insurance institutions with payments for short-term benefits (arising from very brief illness) that involve management expenses out of proportion to the advantages accruing therefrom. This waiting period runs for consecutive days, and is imposed in all countries except Bulgaria, Portugal and Russia. Waiting period is absolute, when the expenses during that time are absolutely borne by the worker and cash benefits are payable after the lapse of that period, as in Great Britain, Germany and some other countries. Waiting period is said to be relative, when after the period ends, payment is made with effect from the first day of illness, as in countries like Austria and Denmark. The waiting period is generally of two days (as in Germany) or three days (as in Great Britain).

It has to be noted that after the termination of membership, the insured persons are entitled to benefits for varying periods in different countries, if they fall sick within those periods. In Great Britain the period is twelve months, in Poland four weeks, Czechoslovakia six weeks, and three weeks in Austria, Hungary and Germany.

Amount and Rate

In fixing the amount of the cash benefits and its rate, the problem is of determining what the economic purpose of such benefit is to be. Two different conceptions exist as to the economic function of the sickness benefit. According to one the benefit is intended only to secure for the sick person a strict minimum of subsistence during the period of incapacity. According to the other conception, it is intended to enable the sick person to maintain his usual standard of living.

According to the first conception, the cash benefit is fixed at a flat rate for all insured persons irrespective of their earnings. This system is followed in Great Britain and New Zealand. In Great Britain there are three different rates for men, single women and married women. In New Zealand there is a single basic rate supplemented by dependants' allowances. This system affords great facilities for the administration of the fund. Such

a rate, calculated in such a manner as to afford only the strict minimum required for subsistence and no more, is open to a certain objection. It fails to take into consideration the customary differences of earnings and different standards of life. Such a minimum is apt to be of small economic value to the better-paid insured persons. Mention may be made here of the fact that in Great Britain cash benefit is payable at full rates only if contributions for a hundred and four weeks have been paid. It is paid at reduced rates when the contributions paid cover a period less than a hundred and four weeks, but more than twenty-six weeks.* Moreover, reduction to the extent of 100 per cent. may be made in the weekly benefits, if the contributions fall into arrear

According to the second conception of the purpose behind cash benefits, the benefit is fixed in relation to the wages. While the maximum is limited by the actual wage loss, the notion of full restoration of loss has been rejected as being bad insurance as well as bad psychology since there must be an incentive left to the patient to long for recovery. While illness must not thus be made profitable, the rate of benefit must be sufficiently high to enable the worker to meet his essential needs and preserve something of his habitual standard of life. The economic value of the benefit is thus equal for all the insured persons. Therefore the benefit is payable at a certain percentage, fixed by law, of the contributor's basic wage. (Such a benefit is called the sliding-scale benefit.)

This system of benefits is, however, comparatively somewhat difficult to administer, since it entails notification and recording of all or most of the fluctuations in salaries and wages Such difficulties are too numerous, when the actual earnings of the workers are taken as the basic wage on which to base the amount of benefits. So this system is rarely followed ; only in Germany, provision is made for payment, in cases where possible, of benefits according to actual earnings. The usual method is to take the basic wage as an approximate rather than as an actual equivalent of his earnings. To get this approximate estimate, the salaries and wages are split up into classes and categories. Each class includes all such contributors whose wages lie between

* Robson, op. cit , p. 77.

the maximum and the minimum fixed for that class. Such a classification renders the work of the insurance institution less difficult, since the institution is relieved of the necessity of recording individual wages Greater the number of classes, nearer will be the basic wage to the actual Such wage classes are three in Portugal, five in Norway and Rumania, six in Bulgaria, nine in Austria, ten in Czechoslovakia, fourteen in Poland and seventeen in Yugoslavia.

The amount of benefit varies in the different national laws from 50 per cent. to even 100 per cent. of the basic wage. To quote a few instances, it is 50 per cent. in Germany, Esthonia and Luxemburg, 60 per cent. in Norway and Poland, 66 per cent. in Czechoslovakia and Latvia, 75 per cent. in Hungary, 80 per cent in Austria and 100 per cent. in Russia. In some cases benefit is payable at different rates, being progressively reduced as the rate of wages increases, for instance, in Austria, the rate is 80 per cent. of the basic wage for the first seven classes, 74 per cent for the eighth and 66.2/3 per cent. for the ninth class. Although it is in some of the recent schemes that higher percentages are to be found, there does not seem to be any definite tendency to raise the sickness benefit rates. As to prolonged illness and its effects on the amount of benefit, the laws differ Some laws increase the legal rate, if the incapacity is prolonged beyond a fixed period, as in Hungary ; while in Chile and Portugal, the rate is on the contrary, decreased week by week or month by month A number of laws pay at a uniform rate throughout the maximum period for which cash benefit is at all payable.

Family responsibilities of the sick person may be taken into account by granting family allowances in addition to the normal benefit In countries where there is a general system of family allowances, a sick person continues to receive the allowance, at least for a limited period, unless the benefit itself is adjusted.* A number of laws, however, permit sickness funds to grant dependants' allowances as an additional benefit And the insurance institutions concerned have long taken advantage of their power to make allowances for family responsibilities by granting

*I.L.O., Series M, No 18, op. cit., p. 45.

additional benefits. Some laws include the dependants' allowances in the legal benefit itself, for instance, the Rumanian law reduces the benefit for persons without family responsibilities to 35 per cent. (from 50 per cent.) of the basic wage. In Chile, a single person is paid at half the normal rate.

Period of Benefit

The problem of fixing the period during which the sickness benefit is to be paid is a somewhat complicated one. Obviously, longer such a period, the costlier the scheme. Any arbitrary limit is bound to cause hardship in certain number of cases, but higher the limit, the fewer such cases would be. Two broad divisions of illness are made . short-term illness and the long-term illness—growing into almost permanent impairment of health. The latter cases almost border on old age or invalidity. They can be covered either by sickness fund or invalidity insurance or old age insurance fund. Any limit is reasonable and acceptable, only when the prolongation of insurance is beyond the limit is covered by an invalidity insurance scheme Twenty-six weeks is the normal period in the majority of countries, while Czechoslovakia and Hungary have fixed it at fifty-two weeks. Some countries have set the maximum at thirty-nine weeks or authorised the extension from twenty-six to fifty-two weeks in case of tuberculosis, or other diseases requiring very long treatment.*

Other Benefits

In a majority of the laws, the sickness institutions are allowed to grant additional sickness benefits, if their financial resources are found to be adequate for the purpose The fund has to show that it is in a sound financial position In Great Britain a strict rule has been laid down. Additional benefits are payable only from a reserve fund which has been built up from the actuarial surplus accrued during the last five-yearly actuarial period. Additional benefits may be paid in any of the three forms : firstly, the maximum period during which benefit is payable may be extended, secondly, benefit may be paid at a

* Ibid., p. 45

rate higher than the legal one, or lastly, the waiting period may be wholly or partly dispensed with.

Instead of cash benefit, benefit in kind may sometimes be given, providing thereby those things for which perhaps the cash benefits were actually needed by the worker, for instance, maintenance in a hospital, as is provided in Austria, Germany and some other countries When such alternative benefits are provided, the cash benefits may be fully or partly dispensed with. Generally when hospital maintenance is provided for the sick person, cash benefit is paid in part to the family.

All sickness insurance schemes provide maternity cash benefit for insured women at the same rate as the ordinary sickness benefit. Its duration is determined mainly by the legal provisions requiring or authorising women to abstain from work for certain periods before and after confinement. After the World War of 1914-18, most of the countries adopted a total duration of twelve weeks of absence from work—six before and six after confinement—as recommended by international opinion, expressed in the Childbirth Convention of 1919. In some schemes the mother receives a small benefit equal to one-half the maternity benefit during the first few months of lactation. In Great Britain the maternity benefit is payable only as a lump sum equal to about five weeks' sickness benefit, the wives of insured men getting only half such lump sum payment.

Lastly, a number of sickness insurance laws provide for the payment of an allowance for funeral expenses incurred for the insured person, the object being to lighten the burden of the insured person's death on his survivors or those arranging the funeral. The typical rate is a month's wage. Only in Great Britain such a benefit does not exist, because of the great development there of industrial assurance The period of insurance or membership is not taken into account for the payment of this benefit (except in Rumania). Funeral benefit may be paid even for the death of a member of the insured person's family either under legal compulsion as in Czechoslovakia, Lithuania and Poland, or at the option of the insurance institution as in Austria, Hungary, Germany and Esthonia.

Medical Benefits

Importance

Benefits in kind have during the last thirty years proved to be more important than their counterpart, the cash benefits. The object of the earlier schemes was to compensate rather than provide curative treatment. For a worker who is ill, medical treatment is essential, and if it is not provided by the fund concerned, he has to incur expenses for that. Benefits in kind came to be provided by the insurance institutions, because two advantages were seen to exist in such provision : Such benefits could be cheaper, having been bought and paid for in wholesale and this helped the funds in that all-important factor of economy. The second advantage followed from the first in that they could, being cheaper, be given in larger quantities, thus helping the object of rapid recovery. Still the cash benefits continued to receive greater attention With the passing of time, however, the conception of sickness benefits has changed and medical aid, as a benefit in kind, now occupies a far more important place than the cash benefit, though to the worker cash benefit is and will always remain highly important and useful, since loss of wages through illness falls heavily on him in the absence of savings. From the social point of view rapid and complete cure of the sick and their return to work has now become the chief aim of social insurance. A genuine policy of promotion of public health demands that insurance institutions should treat the provision of benefits in kind as a matter of vital concern. And therefore even the preventive function of sickness insurance institutions with regard to sickness is now acquiring almost a revolutionary importance. The proportion of benefit expenditure represented by medical care has risen from 50 per cent. to 60 per cent. and in some countries even to 80 per cent This rising cost of medical care is due partly to the fact that sickness insurance funds make available to the sick persons the results of advancing medical science, whose methods of diagnosis and treatment grow ever more elaborate , but it is due mainly to the extension of medical care to the family of the insured person.

That the cure of the sick and their return to work have become a matter of great importance is amply illustrated by the fact that the right to such medical benefit rarely depends upon any qualifying conditions He is not subject to any waiting period conditions , he is medically treated immediately he falls ill. Similarly as a rule no qualifying period of membership has to be completed Only in very few countries such a period is imposed : eight weeks' contributions in Bulgaria, three months in Portugal. In Germany such a condition may be imposed for the voluntary supplement of the compulsory system at the discretion of the fund concerned, the maximum being fixed at six weeks.

Curative Treatment

Benefits in kind consist of medical treatment by qualified medical practitioners and the supply of necessary drugs and other services The laws allow only fully qualified doctors entitled to practise to be appointed by the sickness fund, though auxiliary medical staff may treat the sick under the order and supervision and on the responsibility of a fully qualified doctor. As to the question of treatment by specialists over and above the services of the general practitioner, whenever necessary, there is no uniformity of provisions in the national laws The highly organised insurance schemes of countries like Austria, Germany, Hungary, etc., all provide treatment by specialists. Other countries leave it to the discretion of the insurance institution, while assuring ordinary treatment by general practitioner.

With the object of effecting a rapid and complete cure as far as possible, treatment is always in accordance with the methods of medical science This includes, in addition to diagnosis and general advice, all therapeutic methods applied by the medical profession. Although the legislature may desire the sick to benefit by the advances of medical science, it can only ensure that they shall receive sufficient and suitable medical treatment Originally, medical benefit meant hardly more than a simple consultation with a general practitioner and the supply of a bottle of medicine Medical benefit has, however, still remained a general practitioner service in Great Britain only and nowhere else. The British law only provides " a doctor and a bottle of medicine " ;

other needs are provided for only by public assistance. Before the present war, the medical benefits of compulsory sickness insurance in most other countries had come to include free advice and treatment by a general practitioner and on the latter's prescription, the supply of drugs, and the less expensive appliances, treatment by specialists, physical treatment and hospitalisation. The simpler forms of dental treatment like extractions and stoppings are also provided as a rule Convalescent care, longer periods of treatment, artificial limb, etc , can be provided by the sickness funds in their discretion * However, sickness insurance being a social service, insured person may not claim medical assistance involving heavy charges for the insurance institution out of proportion to the nature and gravity of his illness So all unnecessary and superfluous benefits are avoided The cost of ordinary treatment including minor operations (even operations like extraction of teeth, stoppings, etc , for dental troubles) is borne by insurance institutions

The curative treatment includes supply of drugs and curative appliances, but not generally tonics The doctor prescribes them. No rigid rules have been laid down in any country as to prescribing by doctors,—the independent medical profession would hardly bow down to such rules The obligation generally is to prescribe the necessary amount of appropriate medicines Strict economy has to be observed Excessive prescribing has to be avoided Between two equivalent medicines the cheaper has to be prescribed, if it is not prejudicial to the sick person for rapid recovery Under certain schemes, schedules have been prepared, such as the official pharmacopœia or a special schedule, and the attending physicians are authorised to prescribe only the medicines contained in such a list Arrangements are made with chemists for the dispensing of the prescriptions These arrangements may be regulated by law, or by a special contract between the chemists and the insurance institutions The former method is followed in Czechoslovakia, Austria and some other countries, and the latter in Great Britain, Germany, etc Medicines are often made available at reduced rates to the institutions. In order to prevent extravagance, prescriptions and chemists'

* Ibid , p 46.

bills are sometimes subjected to special medical scrutiny. The German Act stipulates with the same object in view, 10 to 20 per cent. contributions for drugs, etc , from the patient in serious cases.

Period of Benefit

Medical benefit is not provided in all countries for an unlimited length of period. Only the British Act provided for continued medical care without any limit of time as long as it is required, for the chronically invalid as for those still acutely ill. Germany by a very recent measure has removed the limit on the duration of medical benefit, and the patient who does not leave the field of insurable employment permanently, as an invalid or otherwise, is always entitled to treatment Certain Acts of recent date, for instance, the Bulgarian, Latvian, etc , do not put any limit for the grant of medical benefit, if the patient continues to work while receiving his treatment Where a limit exists to the period for which the medical benefit can be drawn, the duration of medical benefit is, as a rule, the same as that of sickness benefit (cash benefit)—between sixteen and fifty-two weeks In most countries after the expiry of this period, invalidity benefits are available. The duration of medical benefits, unless it is so followed by invalidity benefits, resulting in the cessation of treatment before complete cure indeed reflects very adversely on the real worth of sickness insurance.

Additional Benefits

Just as additional benefits are given in cash, they are given in kind also In most of the cases their grant is left to the option of the insurance institutions, which provide them if their finances allow them. In Great Britain such benefits can be provided only from the surplus earmarked for the purpose by the Government Actuary after the periodical valuation of assets and liabilities of the approved societies. Additional benefits are granted generally in the form of extension of period of benefit, hospital treatment, or treatment in convalescent homes, supply of artificial limbs, or appliances, etc., etc. Germany provides an illustration of most of these benefits. The most common is

the hospital treatment The ability of the insurance institutions to provide this benefit depends upon the number and standard of available public or private health institutions (hospitals) for the treatment of the members. Such establishments may be required to reserve a certain number of beds for the sickness insurance funds in their districts, and to treat their patients at cheaper rates. Of course, the best solution is for the funds to have their own hospitals. When hospital treatment is not practicable for any reasons then in rare cases treatment may be given in the homes of the sick by the physician with the assistance of nurses. Hospital treatment is in fact also an alternative benefit (in relation to cash benefit, as discussed above), since it is almost always accompanied by certain reduction in the sickness benefit.

There has been one very important development in the grant of benefits in kind, and that is the extension of the medical benefits to the family of the insured person. In the beginning the sickness insurance schemes were rigidly modelled on conceptions of private insurance and the benefits were available only to the insured person, so that insurance was far from being really social. Now, however, the social objective has been receiving greater emphasis than the insurance method. The insured persons—the wage-earners—form only a part of the class of persons who need such assistance. So by extension of the medical benefits to the families of the insured persons sickness insurance is serving the majority of the needy persons. This extension is important not merely because of the effects of family sickness on the wage-earner's health and purse, but also from the broader ideal of public health Now, such benefits were introduced even before the 1914-18 war, but they spread rapidly in the post-war period Benefits for the family are compulsorily payable in some countries like Czechoslovakia, Hungary, Norway, Rumania, etc. In Germany they are compulsory only in the case of the miners' scheme, although their extension to the general scheme is only a matter of time In other countries the grant of such benefits is made to depend on the discretion of the insurance institution ; and wide use seems to have been made to this authorisation in a number of countries like Germany,

Austria, Latvia, etc In Great Britain, they are included in the category of additional benefits, thereby being made subject to all conditions necessary for such additional benefits thus resulting in the rarity of actual extension of the medical benefit to dependants in practice. Benefits for the family, it should be noted, are not so ample in kind or long in duration as those given to the insured person himself, though any restrictions to this effect are not very desirable.

Maternity Benefits

Maternity benefits have in recent years come to form an important branch of sickness insurance benefits (although in some countries like France and Italy there are separate schemes for this), since the method of insurance was adopted to help the solution of the problem of maternity amongst the masses. For women labourers rest before and after confinement is essential in all cases and means abstention from work and consequent loss of wages Again, medical attendance and aid is necessary during maternity. Although the recognition of these needs has produced legislation of prohibitions (and perhaps some rights), like prohibition of work immediately before or after confinement, this is of no practical benefit to the labourers in the absence of some means of subsistence during this period. Social insurance has attempted to solve this problem and provides benefits, in cash or kind or both, for the insured women.

Conditions for the grant of maternity benefit apply generally only to cash benefits The qualifying period of membership, non-existent in Russia, Czechoslovakia, etc , varies between three and ten months. The insurance institutions are generally given the liberty to waive this condition about the qualifying period the notable exceptions being those in Great Britain and Ireland.* Obstetrical assistance is provided for by most of the laws. In some countries, however, instead of providing it on their own account, the insurance institutions are allowed to discharge that obligation by payment in cash, for instance, in Norway, the expenses of the insured women are reimbursed according to a

* I.L.O., Series M, No, 6, op. cit., p. 345.

scale laid down ; in Great Britain and Ireland, this responsibility can be discharged by a lump sum payment. It should be noted that maternity benefits have been generally included in the extension of medical benefits to the family of the insured persons From the point of view of the broad object of securing better health for the next generation, this extension is very important In about fourteen compulsory insurance laws, the wives of the insured persons are amongst those entitled to maternity benefits —to name a few of them Austria, Germany, Great Britain and Hungary In Esthonia and Luxemburg, such benefits are additional benefits Although the family has been, in most cases, taken to mean only the wife of the insured person to the exclusion of other members of the family, such other members have also been given similar rights in some countries like Austria, Germany and Poland Free attendance by a certified midwife and, if necessary, by a doctor, together with medicines, etc., is provided for the members of the family generally on the same conditions as enjoyed by the insured persons.

Organisation of Medical Service

The organisation of the medical service is not a very simple problem. It raises several difficult questions like the responsibility for the organisation, appointment of doctors, their remuneration, regulation of the medical services, etc , etc The responsibility for the organisation of the medical service falls as a rule on the insurance institutions This rule was first adopted in Germany and then copied in most of the other countries. Only in Great Britain, the approved societies are merely required to administer cash benefits The Act lays down that public corporations called Insurance Committees, shall be formed in each administrative district and shall be responsible for organising medical service On the other hand, in some of the Baltic countries, responsibility rests with the employer primarily, the rule being copied from the Russian Labour Code of 1912 In Russia, the medical assistance to insured persons and their families is entrusted to the General Health Authorities.

Selection and Appointment of Doctors

Selection or appointment of doctors presents the most difficult problem. It is unusual for the law to allow the parties concerned full freedom to organise the medical service as they choose. In the interests of all concerned, some definite method is prescribed. Broadly speaking, three methods may be distinguished : Firstly, all medical practitioners who apply may be appointed, the rule generally being that no applications can ever be refused in case of duly qualified men, whatever the number of men already admitted. Such free selection of doctors is followed, for instance, in Great Britain * Secondly, the applying medical practitioners may be appointed only if they agree to certain conditions, the appointment taking place through the medium of a written contract. Thirdly, the insurance fund may appoint doctors in its discretion Again, there are three ways in which the insured persons may choose their doctors Firstly, their choice may be unlimited and they may choose any doctor who has agreed to treat members Such a method exists in Great Britain.† Secondly, the patient may choose from only a limited set of doctors at least two in number, the choice being thus limited According to the third method, the patient has no choice, but has to accept that doctor whom the fund appoints.

A satisfactory settlement of the problem of selection of doctors is essential to the proper working of the sickness insurance system. This problem has raised endless controversies between the insurance institutions and the medical practitioners and only in few countries they would appear to be finally settled. Both the parties have their own arguments The medical profession is after all an independent profession, and the doctors claim the natural right of each person to choose that doctor whom he trusts. The sickness funds—if they follow the method of limited choice by choosing some particular doctors—exclude others, however willing those others might be to treat the insured persons The exclusion is serious, when the proportion of insured persons is high, because then even the private practice of the doctors

* I.L O., Series M, No. 4, op. cit., p. 103.

† Ibid., p. 104.

would be affected. The funds in their turn claim that they have a right to conclude contracts with any doctor that they choose. Of course, it is the business of the legislature to reconcile opposite views and interests. In any case insurance institutions must secure the co-operation of the medical profession on terms which recognise the fact that they are bodies organised in the public interest and for purposes of social protection The insured person should be given the right to choose his own doctor from amongst those at the disposal of the insurance institution on equitable conditions, if it does not incur any considerable extra expense to the institution

The organisation of medical service depends upon the conclusion of contracts between the insurance institutions and the doctors. The conditions of the medical contracts are now generally settled collectively between the insurance institutions and the central bodies representing the medical profession Especially when the number of insured persons is large, such collective regulation proves very valuable In Germany, the general practice is general principles are determined by a national collective contract, adjustment of the national collective contract to local conditions is made by local collective agreement, and the final individual contract is concluded by acceptance of the collective agreements

Their Remuneration

Remuneration of the medical practitioners is an important question, since it affects seriously the attitude of doctors towards the insurance system, although it is not so much controversial as the question of the selection of doctors The method of remuneration is often influenced by the method of selection Four ways of remunerating the doctors are seen to exist · One is the method of fixed salary The doctors are paid a certain lump sum for a specified period, irrespective of the number of cases of sickness Naturally, this method is adopted for permanent medical officers in a salaried service, or in systems where no free choice of a doctor is allowed for the patient Provision is often made for periodical increases of salary and even pensions on retirement By another method, the doctors are paid a fee per

insured person ; the remuneration is independent of the number of cases of sickness and attendance given ; it is determined by the number of insured persons in the doctor's care. The rate is fixed with reference to morbidity rate (i.e , average number of cases of sickness per insured person per annum) and the average number of consultations, etc., per case Under this system both the doctor and the institution know in advance the amount of remuneration. This system does not cover by its rate special forms of attendance like operations, etc. This method exists in Austria, Czechoslovakia and Germany,* etc. According to a third system, the doctors are paid per case of sickness—whatever its duration or gravity. The advantage of this system is its simplicity , but the danger is that the doctor may be tempted to certify any insured person who consults him as sick. This method is not widely followed. Lastly, the doctors may be paid according to the prescribed number of medical attendances : a unit of medical attendance is chosen for which a price is fixed, and the different forms of attendance given are referred to this unit according to a scale of coefficients (the total payment thus being the number of units multiplied by the basic price of a unit). Such a system is particularly suitable in countries where free choice of doctors is allowed, as in Germany, Austria, etc It has to be noted that more than one of these systems may exist side by side in the same country

Nationalisation

One not wholly desirable feature of the organisation of medical service has been its working on the lines of private individual practice. The doctors work individually in their own consulting rooms. Individual practice can give satisfactory results only where expense is no consideration, however economy in medical service, providing the best treatment for the available money, is a specially pressing consideration for the sickness insurance institution. Modern methods of diagnosis and treatment require an extensive and costly equipment of which only a group of doctors practising at the same centre can economically avail themselves. Medical supplies, auxiliary staff and overhead charges are like-

* See I L O., Series M, No 6, op cit , p 387.

wise relatively cheaper for several doctors working together. Such centres or clinics may be started and owned by the insurance institution itself. This group practice of medicine gives a number of other advantages also.* In Western Europe especially, the medical service of the sickness insurance institutions is very largely organised on the lines of private individual practice The need for the nationalisation of the medical service is, however, increasingly felt. In Central and Eastern Europe, such fully-equipped clinics have been established only for specialist treatment. It is only in Chile that rationalisation of insurance practice has been carried to the farthest possible limit. Insurance doctors, in that country, are employed on a salaried basis and all treatment is furnished at clinics by a group of general practitioners and specialists For the rural areas, a service of travelling dispensaries is arranged, to visit the sick at the first-aid posts. It may be mentioned that a national medical service is in operation in New Zealand and in the Soviet Union, where every inhabitant is entitled to free medical attendance, drugs and hospital treatment

The Problem of Economy

Mention may be made of the problem of applying the principle of economy to the medical and pharmaceutical benefits of sickness insurance funds. Because of the limited financial resources of the insurance institutions, it is not only right and natural but also quite essential that these institutions should try, by organising their work on scientific lines, to obtain the best possible result from those limited resources for the protection of the health of the insured. In Germany, the country in which compulsory sickness insurance was first introduced, this problem was first studied and a solution was attempted The research into the question of economical prescribing was carried on by doctors who, on behalf either of sickness insurance funds or of medical associations, were responsible for keeping a check on the prescriptions of doctors treating insured persons In 1924, a committee of representatives of sickness insurance funds and medical associations drew up the first guiding principles for economical prescribing, which have

* I L O, Series M, No 18, op cit, p 50

since been modified in various ways. Considerable progress has now been made and such principles are now in force in a number of countries like Czechoslovakia, Germany, Great Britain, Hungary, Latvia, Poland and Yugoslavia. In 1934, the International Labour Office called a meeting of experts to study the question of economical administration of medical and pharmaceutical benefits under sickness insurance with a view to comparing the experience in various countries on the subject The experts at the meeting adopted a number of guiding principles and laid down rules for achieving the same.*

Organisation

Grouping of persons

There are a number of methods of grouping insured persons together. The oldest of these has been the grouping by trades : Persons engaged in the same occupation form one institution. The range of action of a trade insurance institution may cover the entire territory of a country, e.g., seamen's fund ; generally, however, the workers covered are in a restricted territorial zone This system has several advantages All the persons are exposed to the same risk and are working under the same conditions. Actuarially the rate of contributions can be more easily adjusted to the risks. It further promotes solidarity amongst the members which may further help to secure effective mutual supervision by members. It lastly provides opportunity for co-operation between employers and workers On the other hand this system is subjected to some serious criticism In the first place, the stability of such institutions is very much liable to be seriously affected by economic disturbances or crisis Secondly, there is the fear of concentration of only bad risks in some cases.

Another method by which insured persons may be grouped is the territorial method. Persons living in a particular area become members of the same insurance fund, whatever their occupations. Amongst the territorial funds, there may be some funds formed specially for some occupation like agriculture. The territorial

* For details, see *Economical Administration of Health Insurance Benefits*, I.L.O , M 15.

grouping affords numerous advantages : There is mutual compensation of good and bad risks. There is no fear of disturbance by any economic disturbances or crisis. A big advantage is that the organisation of medical benefits is facilitated, the most eloquent proof of this being the fact that in countries like Great Britain, where there are funds more on lines other than territorial, separate institutions (called " Insurance Committees " in Great Britain) on territorial basis have been established for administering medical benefits. Further, insurance against various risks can be unified. The territorial basis of the insurance institution may facilitate to a large extent the unification, for administrative purposes, of the various branches of social insurance. A unified system of social insurance has been thus attempted in Bulgaria, Czechoslovakia, Yugoslavia and Russia. Another important advantage of territorial grouping is economy in administration.

Insured persons may be grouped on religious or political basis Such funds are rare. They are financially weak. There may be overlapping, increase in cost of administration and almost insuperable difficulties in the organisation of medical benefits Countries with either territorial or trade grouping alone are only two in each case : Bulgaria and Lithuania in the former and Esthonia and Latvia in the latter case. In the large majority of the countries both the systems are to be found, though in many of these territorial groups preponderate

Insurance Institutions

The formation and recognition of the insurance institution, to lay down a broad and general rule, depends upon the question whether it is managed by the State or by an independent body Obviously if the institutions are to be managed by the State, they are created by the State In the latter case, they are formed independently by individuals and are then recognised on certain conditions In this latter category fall trade funds, mutual benefit societies, etc In the former are to be found territorial funds usually constituted by central administrative authorities and their agents

These different types of funds have developed to varying

degrees in the different countries. One or the other type, although not existing to the exclusion of others, preponderates in the various countries. This position is explained only by the development of the sickness insurance institutions. In the light of the development of the insurance institutions, three broad classes can be distinguished . Systems of free affiliation, systems of subsidiary legal affiliation and those of compulsory legal affiliation.

It must be remembered that before the introduction of compulsory sickness insurance, sickness insurance had developed in many countries to a greater or smaller extent. Mutual benefit societies were formed by some individuals of their own accord and persons could voluntarily join these societies It is this development of the voluntary institutions that has influenced largely the organisation of the compulsory insurance institutions. On these voluntary institutions was based the new compulsory sickness insurance scheme for its organisation , since their co-operation was indispensable because of their administrative experience in the field of sickness insurance.

Free Affiliation

In countries where such voluntary funds existed in considerable numbers, the legislation merely converted the voluntary association into associations empowered to administer the compulsory scheme. The mutual benefit group was made a statutory insurance organisation. The mutual benefit societies, trade union sickness funds and institutions due to private enterprise were entrusted with the work of operating compulsory sickness insurance. Great Britain affords a typical example of this state of things , in that country the National Health Insurance Act of 1911 had only to enable existing insuring groups to be converted into the legal institutions of the same character and further authorised them to include therein such persons, now compulsorily subject to insurance, as had not previously joined any fund voluntarily. A system of free affiliation was adopted. Persons subject to insurance have been free to select their own insurance carrier and there is no coercion to join any particular insuring group The formation of insuring groups is entirely due to private enterprise. There exists in Great Britain a great number of different

types of "approved societies"—societies recognised as sickness insurance carriers by law :—(1) Those known as friendly societies (whether registered or not as such under Friendly Societies Act of 1896) (2) Trade union funds. (3) Employers' provident funds. (4) Industrial assurance companies (5) Co-operative societies. Now 46.5% of insured persons belong to friendly societies, 42.8% to industrial assurance approved societies, 9.9% to trade unions, and 0.8% to employer's provident funds. Conditions required for obtaining recognition as an approved society are few : In order to be qualified to obtain the privilege of becoming an approved society, it is necessary that the society shall not be carried on for profit and that it shall be absolutely controlled by its members.* The approved society is responsible for administering the cash benefits. Medical benefits, as has already been stated, are administered by separate funds known as Insurance Committees organised on territorial lines. The approved societies are wholly managed by the insured persons, except in the case of employers' provident fund where the employers are represented to the extent of 25%. Just as there is free formation of insurance funds, members are free to join any society Applications for membership may be rejected by the society on any reasonable ground (except that of age) like occupation, residence, etc. A new entrant has to apply before 1st April or 1st October next following the end of the half year during which the applicant entered employment, and failing this he automatically becomes a deposit contributor, as become those also who ceasing to be members fail to join another society These have to pay a certain statutory contribution to the deposit contributors' fund, which receives contributions from employers and a State subsidy. Actually this is only a system of saving since benefits correspond to the sums standing to the credit of the members The advantages of such funds have been deliberately made negligible, with the result that scarcely more than 25% of the persons remain deposit contributors. Arrangements are made for their transfer from the deposit contributors' fund to an approved society.

* *National Health Insurance through Approved Societies*, by W. A Willis, p. 32

Subsidiary Legal Affiliation

System of subsidiary legal affiliation came to be adopted in countries where there was not any considerable development of voluntary insurance prior to the introduction of the compulsory system. In such cases the process of organisation was twofold. A part in new system was assigned to the existing mutual organisations corresponding to their importance. Secondly, statutory insuring groups were created by means of Government intervention. The basis of organisation adopted generally has been that persons subject to insurance are free to join private funds, but failing to do so in accordance with the legal requirements, they automatically become attached to the appropriate statutory fund Most of the existing funds were on a trade basis like guild funds, mining funds, employer's provident funds. A number of these—the weaker or the smaller ones—were abolished and new trade funds were subjected to restriction. This was done, because all the institutions created by the State were on territorial lines and it was desired that the work of these funds should not be hampered. These enjoy certain exclusive benefits and the trade funds wherever they exist are generally required to offer advantages at least equivalent to those offered by the statutory territorial funds. Mutual benefit societies other than those based on occupational lines, now have only a precarious existence, since only the pre-statutory funds in sound working order have been allowed and new ones are discouraged by exacting restrictions. Trade funds have received kinder treatment, since they in some cases offer special benefits (e.g., in transport, mining, etc) and have been recognised as legal insurers side by side with the territorial funds In fact for such occupations, trade funds have been in some cases made the sole legal insurers. The territorial funds cover corresponding insurance districts into which the country is divided. These funds may be sub-divided to deal more particularly with the insurance of agricultural wage-earners. The territorial funds are independent public corporations, possessing various privileges, generally reserved for public administrative organisations. They are set up by some public authorities, e.g., municipal unions in Germany (or

superior insurance offices), communes in Norway, social insurance institute in Portugal, and subordinate government authorities in Austria and Czechoslovakia. Workers and employers are represented on the deliberative and executive bodies in the proportion of 2 · 1 The membership of such funds is automatic, dating from the day of joining on employment subject to insurance, provided the person concerned does not join a mutual benefit fund or a trade fund District fund covers all wage-earners whose principal place of employment is situated within that area, or whose habitual residence is in that area

In Germany 71% of insured persons are covered by territorial funds, 24% by trade funds and 5% by mutual aid societies

Compulsory Legal Affiliation

In countries where there was practically no voluntary mutual benefit movement, the system of compulsory legal affiliation came into existence Their legislation had to provide for the fresh creation of collective insurance groups. Insurance institutions of this kind enjoy a virtual monopoly, as no other funds are recognised as such The funds may be territorial or trade funds Preference is given generally to territorial funds because of their many sided advantages They are generally set up by the Ministry of Labour.

Management

The insurance institutions may be managed by three agencies : the State, private companies or self-government Of these management by private companies is naturally rare, since they work for profit State management is found in few countries including Bulgaria Such management, in many cases, exists only by way of exception, as, say, a starting point. The reason for this limitation is the fear of creating a new and vast public service with thousands of officials who may be accused of lack of initiative and of subjection to bureaucratic routine Also the State is a slow and costly administrator The generally accepted form of management is that of self-government , the insured thereby only manage what virtually are their moneys They are directly interested in the satisfactory working of the organisation

and its financial stability. There can be proper mutual supervision and the needs of the insured can be most fully met. Again this participation of the insured workers promotes knowledge amongst workers of sickness insurance and even hygiene and facilitates prevention of sickness. The right of the employers to participate is also recognised, since they also contribute towards the cost of sickness insurance As an impartial factor, the authorities also are represented Management consists of three branches : deliberation, execution and supervision. The deliberative body is a larger one, sometimes consisting of all the members The executive committee is actually the managing committee. Management is in the hands of the insured alone in Esthonia, Great Britain, Ireland, Portugal and Russia ; whereas it is in the hands of the insured person and employers in the large majority of the laws including those in Austria, Germany, etc., and of the insured persons, employers and the State in Chile, Norway and Rumania.

Organisation in Voluntary Schemes

Under voluntary sickness insurance schemes are found to operate approved sickness insurance funds These funds may be open funds, being open to all persons, or closed funds, being meant only for particular undertakings * The mutual benefit societies may conform to them and be approved societies thereby enjoying certain advantages or may just remain subject to common law rules, for associations not carried on for profit The conditions required to be fulfilled before approval vary. The older laws of France and Belgium provide, in general, that the social aims of the institution should be defined by its constitution and be confined to mutual assistance for illness, that regulations shall be adopted defining the composition of the various organisations of the society and laying down rules for its management. The more recent laws of Sweden, Denmark, Switzerland, etc., are stricter. They may specifically lay down as to whether membership is to be kept open only to nationals or to all ; age limits may be imposed (e.g.. as in Denmark where the age limit is

* For details, see *Voluntary Sickness Insurance*, I.L.O., M 7, pp XXVI-XXVII.

14-40), the funds may be required to have a certain minimum of members, only limited freedom may be given to pass from one fund to another; even a certain minimum for benefits may be prescribed * Membership of the funds is also purely voluntary There is freedom both to join any institution and to resign at any time, though the right of the funds to expel members may be restricted.

Federating Insurance Institutions

The problem of federating sickness insurance institutions has, of late, assumed considerable importance Federation of insurance institutions is specially useful for work that can be done only by funds having large membership and finance rarely available for a single insurance carrier. Federation can perform a number of duties like supervision of the work of the funds, payment of contributions of the sick person, payment of part of the benefit; constituting a joint reserve fund (as in Great Britain), establishment and working of hospitals, convalescent homes, etc, as in Germany, Austria and some other countries, conclusion of agreements with medical practitioners, etc, compilation of statistics, appointment of officials and employees of funds, etc., etc. Several laws provide for the formation of federations or associations. These are, of course, not necessary where there are central insurance institutions acting as the sole insurance carriers, the separate funds being only their local organs, as is the case in Belgium, Bulgaria, Hungary, Russia, etc. The organisation of federations may be compulsory as, for instance, in Czechoslovakia and Poland, or voluntary as in Austria, Esthonia, Germany, Great Britain and many other countries They are formed generally on regional lines. The method of actual grouping and affiliation of funds to a federation depends upon the type of insurance institutions and system of affiliation of persons to the institutions, for instance, where a large variety exists, those of the same type may be required to join together In Poland, regional federations are grouped into one national federation

* *Sickness Insurance*, I L O., M 4, pp. 68-69.

Problem of Supervision

Supervision of the sickness insurance institutions must receive proper attention, if the institutions are to work efficiently. Now, it is the right and the duty of the State to supervise the regular working It must see that normal effect is given to the obligation of persons to join insurance institutions and that payments are made to the persons eligible to receive them ; and it must supervise the administrative and financial working of the institutions Administrative supervision consists in seeing that the advisory bodies are regularly constituted and worked according to law and rules and regulations of the institutions. The financial supervision involves the examination of accounts involving income, expenditure, working capital, reserve funds, investment of funds and generally a careful watch over the solvency of the institutions Methods may have to be prescribed for cases of deficit, like increase of contributions, reduction of benefits, etc.

General supervision is as a rule entrusted to the ministry concerned with labour questions, social welfare, etc., or the Ministry of the Interior. The nature and constitution depend upon whether the State is directly responsible for management of insurance or has entrusted it to autonomous bodies. In the former case, functions of management and supervision may not be clearly differentiated except by the mere difference in the ranks of the officers concerned, as in Bulgaria. In the latter case, supervision is often in the hands of entirely different bodies . central supervision is given to a ministerial department or a federal insurance office, with local offices The State officials usually are the labour inspectors or specialised insurance officers In Austria, Great Britain, Ireland and Greece, etc., supervision is in the hands of the ministerial department and State officials. In Esthonia, Germany, Lithuania, Portugal, etc., the general control is with the ministry, but actual supervision is by special insurance offices. Such bodies may be given both administrative and judicial work. Such insurance offices may consist solely of public officials as in Norway, Poland and Switzerland, or may have representatives of workers and employers connected with them. In Czechoslovakia, supervision is in the hands of the

higher officials, central and local insurance institutions.

Settlement of Disputes

One more question that may be very briefly mentioned here is that relating to the settlement of disputes, the commonest among which are those connected with the right of the insured persons to benefit. The nature of disputes in general can be judged by a glance at the parties interested in the operation of sickness insurance, viz , insured persons, their employers, doctors, chemists, dentists and other auxiliaries of the insurance fund Such disputes as refer to the right to benefit must be solved immediately without any delay. Therefore the judicial bodies should be special tribunals consisting of judges specially cognizant of the purposes of social insurance and the needs of insured persons The insured person should have a right of appeal at least in disputes concerning his right to benefit.

" Health " Insurance

It may be recalled that in some countries sickness insurance is called, perhaps by way of euphemism, " Health Insurance," in preference to that simple matter-of-fact name " sickness insurance " This is rather misleading, in that it possibly implies that preservation of public health is the main purpose of social insurance. The fact cannot be gainsaid that health improvement is not a fundamental purpose of sickness insurance, though it may be a most desirable by-product of the system Sickness insurance has indeed become the principal instrument of a health policy for the masses of the population. The improvement of the standard of their health is important also because it reduces the future liabilities of sickness insurance institutions Further, with the same view preventive measures have attracted the attention of all the countries. Maternity benefit and family benefit come also under prevention of sickness and diseases, the other forms that the preventive measures can take being access to medical advice, propagation of the rules of health and hygiene, health exhibitions, and periodical medical examinations to discover symptoms of serious and avoidable diseases The efforts of Chile

in this direction are most commendable, where about 250,000 persons are examined by the Chilean sickness insurance fund every year (under the Preventive Medicine Act of 1938) with indeed very useful results.*

* For details, see *Approaches to Social Security*, I L O., M 18, p. 47.

CHAPTER IV

OLD AGE, PREMATURE DEATH AND INVALIDITY INSURANCE

(PENSION INSURANCE)

LIKE sickness, invalidity, old age and premature death are dangers to which all human beings are exposed. And these have extremely grave consequences for persons whose livelihood depends wholly or partly on regular occupational activity, whether dependent or independent. Though the importance of removing the constant feeling of insecurity created in the mind of workers by these imminent dangers always staring them in the face, has been recognised on all hands only in recent years, efforts were nevertheless made from very early times, whether from a mere humanitarian view or otherwise, to relieve the persons affected by these.

The problem has been attempted to be solved by numerous methods of a varied nature. Workers on their part have in a number of cases tried to help themselves by individual thrift But generally their wages have proved too low to allow for the current expenses and saving for the future ; such attempts have, therefore, proved absolutely unsuccessful. The State on its part has tried the method of public relief, supporting the disabled persons at the cost of the community. The poor law legislation is an illustration of such efforts However, public relief has proved inadequate, because the level of assistance has been low and relief has been given, not as a matter of right, but at the discretion of the authority. The workers themselves have a hatred for such relief

Especially because of the disrepute into which the poor relief and its administration fell in later years, it was generally felt towards the end of the nineteenth century that a more dignified and substantial provision should be made for the aged persons

in particular. Two methods have been adopted for making such provision The old persons are given pensions after a particular age. One method is that of non-contributory pensions, first adopted in Denmark ; the other method is the scheme of compulsory subsidised saving against old age, adopted first by Germany, better known as contributory old age pensions. The latter method falls in the category of social insurance. Non-contributory pensions only constitute assistance of a higher standard than that of poor relief. The amount of pensions is more substantial. The claim to pension tends to become a right on fulfilment of the statutory conditions, since a right of appeal is granted to the claimants.

Non-contributory Pensions

The non-contributory pension was first instituted in Denmark in 1891. The pension was to be given not as alms, but was looked upon as a reward for work done before reaching old age. To emphasize this fact, some qualifying conditions were laid down, on fulfilment of which the pension accrued as a right The non-contributory pensions for old age were then established in a number of countries including New Zealand (1893), France (1905), Great Britain (1908), Uruguay (1919), and South Africa (1928). In the United States, it was only as late as 1935 that the encouragement was officially given to old age pension movement already existing in the States, by the Social Security Act of 1935, which promised a Federal subsidy *

At the outset only old age was taken into consideration. In course of time the non-contributory pensions were extended to cover invalidity. However, legislation is not uniform in the matter of the risks covered. The aged are granted pensions in all countries which have adopted any legislation in this direction Most of these countries have also instituted pensions for the blind However, only a few countries provide pensions for the invalid, viz., France, Australia, Uruguay and New Zealand. The risk of premature death is not covered by any non-contributory pensions scheme.

* I.L.O , Series M, No 18, op. cit., p. 7.

Before pensions could be granted, some conditions have to be fulfilled. These qualifying conditions are political, moral and economic. The claimant must be a national of the country that provides the pension, and he must have resided in the country a minimum number of years, say, fifteen or twenty ; a shorter period may be fixed in the case of blindness and invalidity. The moral conditions, prominent in the older laws, are now either dropped or are non-existent in the recent laws. An example of moral conditions is the following The claimants must have led a respectable life without any criminal record. In Great Britain such conditions have been abandoned, while in Canada and South Africa, they have not been imposed at all The economic condition, the means test, is the most important. Pensions are restricted only to those persons whose means do not exceed a prescribed amount This amount is generally considerably above the subsistence level.

The rate of the pension, under the non-contributory pensions schemes, depends mainly on the means of the claimant, but it is subjected to a maximum rate which on an average is about one-fourth of the wages of an unskilled labourer While assessing the pension, part of the means of the claimant may be disregarded, e.g , that amount of the earnings which accrues as benefit from friendly societies, or the annual value of the house owned by the claimant and occupied by him, etc. In the countries of the British Commonwealth exemptions of this nature are quite liberal. The pension is adjusted to the net means, and generally a pension sufficient to bring the total income (i e., net means plus pension) to the maximum pension itself is granted.

The non-contributory pension schemes are financed solely from taxation. The cost may be borne wholly by the Central Government or be shared with the Local Governments The schemes are administered by State officials and not, as is generally the rule in social insurance, by elected representatives of the persons concerned Administration again may be shared by the Central and Local Government.

As has already been stated above, non-contributory pension schemes have been adopted as being an improvement upon the

method of statutory poor relief and most of the schemes like those of Australia, Great Britain, Denmark, etc., offer important advantages, as compared with the typical poor relief conditions : The pensions do not affect any civic rights , award of pensions does not depend on the absence of relative legally liable and able to support the claimant , pensions are not confined to the destitute. The pension is payable as of right to persons satisfying the statutory conditions. Appeal to higher authority is also provided.

The non-contributory pension scheme has some advantages over its rival contributory scheme. Its scope is universal ; the scheme meets, when it is instituted, the immediate needs of the existing aged and the invalids , no machinery need be set up to collect contributions and to keep the accounts of contributors. However, the non-contributory schemes as they exist today, have their drawbacks also ; the risk of invalidity is covered only in four countries, viz., France, Australia, Uruguay and New Zealand and even in these countries only permanent and total incapacity is pensionable. The risk of premature death is not covered or may be said to be covered only incompletely, since the widows have no claim, except in respect of children. These schemes are also generally financially weak.

Contributory Pensions

In fact non-contributory pension schemes have proved themselves to be only transitional schemes. Except in Australia, Canada and South Africa, they have been overshadowed or replaced by contributory schemes introduced later. The most important factor in this connection has been the financial one— it has to be noted that old age pensions are very costly— ; for instance, in Great Britain, the main factor requiring the change-over from a non-contributory to a contributory scheme was the future budgetary problem presented by the actuaries' report on the development of the old scheme Due to the very great expansion of population and the increase in the prospects of survival, the cost of the Exchequer was estimated to rise from £27 millions in 1925 to £60 millions in 1975 under the old non-

contributory system.* In Great Britain the Contributory Pensions Act was passed in 1925, whereby contributory pensions have been created for widows, orphans and old persons after the age of 65, though actually after 70, the insured persons receive old age pensions under the Old Age Pensions Act of 1908 (non-contributory) by virtue of a provision in the Contributory Pensions Act whereby the contributory pensions are then merged into non-contributory pensions. The non-contributory scheme has thus been overshadowed, though not replaced, by the contributory system. Similar development has taken place in other countries too. In France the introduction of a general scheme of social insurance in 1928 marked the exit of the non-contributory pensions, except for some residual functions. In New Zealand, again, the Social Security Act of 1938,—covering in a single enactment, old age pensions (called the " universal superannuations "), medical, surgical and hospital treatment, sickness, invalidity and maternity benefits, widows' and orphans' pensions, special pensions for disabled miners, unemployment benefit and family benefit—replaced the non-contributory pensions with effect from 1st April 1940, upto which transitional period persons qualified under both schemes were given the higher of the pensions from the two sources. Even in the United States the Federal scheme of old age and survivors' insurance seems destined ultimately to cover the whole occupied population and thus to eliminate the necessity for the non-contributory pensions which at present take care in particular of agricultural and independent workers. It has to be noted that the change-over from a non-contributory to a contributory basis has not, in some countries, radically affected the older schemes in other respects †

The contributory pension scheme or pension insurance was first introduced in Germany in 1889 by Bismarck, who declared that, " The State must take the matter into its own hands, not as almsgiving but as the right that men have to be taken care of, when, from no fault of their own, they become unfit for work. Why should regular soldiers and officials have old age pensions, and

* Wilson and Mackay, *Old Age Pensions, A Historical and Critical Study* (London), p 87

† I L.O , Series M, No. 18, p 7.

not the soldier of labour ? This thing will make its own way ; it has a future." Then other countries introduced compulsory pension insurance sooner or later, as described above.

Scope

National Insurance

Compulsory pension insurance laws may, with reference to their scope, be classified into three types, viz., national insurance, popular insurance and compulsory insurance of employed persons only. Under compulsory national insurance, all the inhabitants irrespective of their conditions of work, occupation and amount of earnings are, as a rule, compulsorily insured, subject to conditions of age, residence and nationality. Such national insurance has been advocated on the ground that all persons are exposed to the risks of invalidity, old age and premature death, and their economic consequences. Further, important advantages are claimed for it, e.g., avoidance of class legislation and thereby of class-feeling ; on the side of practical application, availability of regularly collected and published statistics of the general population, its distribution by age and sex, and its mortality , establishment of insurance institutions having a stable and sufficient membership ; easier administration because of factors like absence of enquiry into occupation or earnings , insurance reaches rapidly a position of stability, since insurance embraces the population as a whole , also insurance can then more confidently be worked according to the method of annual assessment, thereby avoiding the necessity of building up actuarial reserves ; even if large reserves should have to be accumulated, they could be quickly and profitably utilised in the interests of national prosperity. However, the notion of national insurance has, until recently, met with strong opposition and extension of compulsory insurance to persons of sufficient means has been regarded as useless and as an abuse of the coercive power of the State. It is further alleged that such a scheme of national insurance is not without some defects of great consequence, e g. : there is lack of homogeneity in important respects, like mode of life, amount of means, ability

to contribute, need of benefits ; again, if general satisfaction is desired, uniformity in contributions and benefits is impossible and a scale of contributions and benefits has to be drawn up, that involves means investigation, classification, etc., compulsory national insurance has been adopted only in two countries, viz., Sweden and some Swiss Cantons. In Sweden, civil servants, and employees in the postal and telegraph departments, State railways, etc , if entitled to a State pension, are exempted.

Popular Insurance

The other two conceptions of insurance refer to persons of small means only. However, one type of scheme covers employed persons only, while the other covers both employed workers and independent workers of small means (popular insurance). In the latter case, employment is not recognised as a criterion of liability to insurance and all occupied persons of small means are covered. Independent workers of small means are no less exposed to the risks of invalidity, old age and premature death ; but some special difficulties occur in practice in insuring them, for instance, there is no employer to pay part of the contribution ; again, the absence of the employer raises the difficulty of the collection of the insured person's contribution. Such a scheme exists for compulsory pensions only in Denmark covering the risk of invalidity, the insurance being compulsory for all those who are regular members of the voluntary sickness insurance institutions. In some countries attempts have been made to institute a special scheme for independent workers. In 1925, a scheme was prepared in Czechoslovakia, and was made a law, but had not been then, or even till 1933, put into force.

Insurance of Employed persons

Compulsory insurance of employed persons has found widest acceptance Although the different national laws differ because of the introduction of certain important modifications, this principle has been adopted in a large majority of countries like Great Britain, Austria, Brazil, Chile, Czechoslovakia, France, Germany, Italy, etc., etc. The main reason for this wide development has

been that such insurance can be easily put into practice, since the cost can be partly charged to the employer and the worker's share can be collected by the employer by cutting his wages to that extent Although the general formula has been almost the same, the modifications introduced by different laws are based mainly on certain exemptions and physiological and economic conditions

The general formula defining scope in the case of employed persons is the same as in the case of sickness insurance. It involves three conditions : (1) work in a dependent position, (2) work under a contract, and (3) work as the ordinary means of livelihood Although this general formula has found almost universal acceptance, its adoption in practice has been accompanied by important modifications in various legislations. These have been based on considerations of an economic or social character. The legislator has estimated in a different manner, according to the country, the need for protection of the various classes of the population and has often been led to limit or to extend the scope of the general formula * The consequence has been a variety of national laws : In some States, there is only a single system of insurance against old age and the other risks, e g., according to the British system, employed persons in a great variety of occupations are compulsorily insured under a single plan which is applicable equally to all occupations. In certain other States the legislation does not provide for a unitary system covering all employed persons but for a number of schemes applicable to different groups of workers according to their trades or occupations which may be described generally as " miners ", " salaried employees ", " intellectual workers ", etc., but for practical purposes need to be more closely defined Examples† of this policy are found in Argentina (bank staffs and staffs of private undertakings of public utility), Brazil (staffs of public utility undertakings), Cuba (seamen and harbour workers), Ecuador (bank staffs), Yugoslavia (miners), etc. Most countries

* International Labour Office, Studies and Reports, Series M, No 1, *General Problems of Social Insurance* (Geneva, 1925), p. 15

† International Labour Office, Studies and Reports, Series M, No 10, *Compulsory Pension Insurance* (Geneva, 1933), p 30.

have established a separate fund for railway workers, and where mining is of importance, for miners The same is often true of seamen and other similar groups. Compulsory insurance is most firmly established in the two branches of economic activity which employ the great majority of workers, viz., industry and commerce ; because workers therein have been organised since early times in trade unions which have urged the adoption and development of insurance schemes and because they receive, as a rule, their remuneration entirely in cash. Moreover, it is comparatively simpler to supervise the work of collection of contributions from employees in industry and commerce. While there are general schemes for workers in a number of countries, these may be accompanied by special and separate schemes for miners, as in Germany

Limiting Factors in Scope

Among employed persons, the exemptions are not few Agricultural workers have been covered by pension insurance only in some countries. In Greece, Hungary, Luxemburg and Rumania, they are not yet covered Even in the other countries movement to include them has grown only in the last thirty or forty years. This slow progress has been due to much the same reasons as in the case of sickness insurance, although in practice pension insurance is not so difficult to extend to this group as sickness insurance. Similarly, domestic servants have been included only in recent years in some national laws, since it was recognised that the old patriarchal relations had disappeared and that they were now in need of social protection like any other workers. As to home workers, they were covered if their industry was covered ; but difficulty arose in the case of those who were legally independent, although virtually in a dependent position Another difficulty was that payments made to them as wages often included both remuneration and the cost of the material. Now, in recognition of the fact that their economic position is often much worse than that of the wage-earners properly so called, they are covered in an increasing number of countries. In Great Britain both the home workers and small contractors are covered. Public servants in most cases are exempted from

the general scheme, since they are effectively protected against this risk by special schemes, e g , in Chile, Bulgaria and Switzerland special schemes cover them. Application of compulsory insurance to apprentices is generally made dependent on their receiving remuneration, perhaps in cash only, as in Germany, Russia, Great Britain, etc , or in kind also as in France, Italy, Hungary, etc. In Australia, Chile, Poland, Hungary, etc , apprentices are included whether they are remunerated or not.

Short-time employments have also proved difficult to be covered in pension insurance In this category come occasional employment (i.e , employment which is undertaken now and then, but does not constitute the usual means of livelihood of the worker), subsidiary employment (i.e., employment regularly followed concurrently with some other main occupation), temporary employment (i e , a series of short engagements, for one or different employers, e.g , a porter), and seasonal employment (carried on at certain periods of the year only). As to occasional employment, the provisions in different countries differ. In Czechoslovakia, it is in principle insurable for salaried workers, but not so under the general workers' insurance scheme In France, those engaging in employment for less than ninety days in a year are excepted. In Germany, the workers' scheme exempts all those who are not normally wage-earners, if they are temporarily employed for negligible remuneration, where occasional employment is that which does not continue for more than three successive months In Great Britain, workers working casually otherwise than for the purposes of the employer's trade or business are exempted Chile makes occasional workers of all kinds liable to insurance. In the case of subsidiary employment, if insurance does not apply to that branch of economic activity, no question arises. The question of exemption arises only if this subsidiary employment is also insurable. The fact must then be decided on the estimate of the importance to the worker of the subsidiary occupation. In practice one of the following three methods is followed : (1) Exemption of all subsidiary employments—this has been done in Czechoslovakia, Hungary and Luxemburg. Here liability to insurance depends only on the main occupation. (2) Exemption of specified subsidiary employ-

ments, e.g , in Great Britain certain jobs specified as subsidiary are excepted, provided they do not constitute the principal means of livelihood. In Austria, exception is made with reference to time that the job takes. (3) All subsidiary employments may be covered. The laws omit to make any mention of subsidiary employment, thus covering it automatically, as, for instance, in Germany. Temporary employment is now covered in most countries. In Germany no exemptions are made. While in Rumania certain undertakings are absolutely liable to insurance, in Russia certain temporary workers are absolutely exempt, e.g., washerwomen Temporary employment is excluded in some countries on the ground of the difficulty of collecting contributions, because of the presence of too many employers. A number of laws leave the question of their inclusion to the discretion of the administrative authorities. In Germany, the method followed has been that, wherever possible, the first employer of the week has to pay his own contribution and deduct the worker's from his wages Seasonal employment is associated mainly with agriculture and its accessory industries. In Germany, exemption is granted if seasonal employment does not exceed twelve weeks at a time or fifty days in all (in a year), provided the persons concerned maintain themselves by independent work during the rest of the year. In Great Britain certain specified seasonal employments are excluded, e.g., fruit and hop picking.

Besides such modifications in the scope of compulsory pension insurance of employed persons, there are other limitations also. Most of these limitations may exist to a greater or a smaller extent even in the schemes of national insurance or of insurance of persons of small means, whether in a dependent or an independent employment. They arise out of personal qualifications and the relevant conditions may be classified as physiological, political and civil and economic. Physiological conditions concern sex, age and working capacity Sex is no longer a distinguishing factor except sometimes in the matter of rates of contributions and benefits The purpose of laying down age limits is to exempt very young persons and persons of an advanced age, or to terminate insurance of persons who have reached pensionable age. The lower age limit is in some schemes based

on the school-leaving age when compulsory school attendance ceases, e g , 14 years in the Netherlands. In general, the lower age limit varies between fourteen to eighteen years. The upper age limit in the case of workers' insurance varies from sixty to sixty-five years. The condition concerning working capacity lays down that persons who are invalids already cannot be admitted. To be entitled to be admitted to insurance the persons must have full or at least substantial working capacity. In practice there is no regular medical examinations for an entrant ; but in doubtful cases the burden of proof falls on the entrant or the insurance institution may get the person medically examined.

The political condition refers to the nationality of the persons. Most schemes apply to foreigners in the same way as to nationals. A few States (e.g , Bulgaria and France) allow this on the basis of a reciprocal treatment only So far as the family relationship with the employer is concerned (civil condition), wife and husband are mutually exempted, while children working for their parents are liable to compulsory insurance, if they are paid in cash. In some countries (e.g., Czechoslovakia), a contract of employment between the child and the father is deemed necessary for liability to insurance The economic condition makes insurance compulsory for those workers only whose earnings do not exceed a prescribed limit In some States the limit is applicable only to non-manual workers, manual workers as a class being presumed to be in need of the insurance benefit. In Great Britain, Hungary and the Irish Free State, a limit has been laid down on non-manual employed persons. In Germany, it exists only for the salaried employees and miners In Chile, France and Spain is to be found a limit of earnings for all insured persons No limit of earnings exists in some countries either in the case of workers (e g., Austria, Belgium) or for particular groups like bank staffs in Argentina, intellectual workers in Poland, etc.

While discussing the scope of compulsory pension insurance, it is relevant to consider the provisions made for persons for whom insurance ceases to be compulsory by conditions of liability to insurance ceasing to exist ; and for voluntary insurance established as a complement to the compulsory scheme to cover

persons outside the scope of the latter. For persons, for whom insurance ceases to be compulsory, provision is made in most countries for maintenance of conditional rights to benefit. There is, as a general rule, temporary free maintenance of conditional rights. It is only when the free period fixed by the law has elapsed without the insured person's again becoming liable to insurance that he loses his conditional rights and the contribution already paid cease to be valid. However, the length of the period, for which membership of the compulsory insurance scheme is necessary in order to be entitled to these conditional rights, varies. In Bulgaria the condition is that at least twenty-four weekly contributions must be paid in two years after the date of issue as stamped on the insurance card. A period of two years is provided in Great Britain For the benefit of persons whose temporary free maintenance of conditional rights has lapsed, some provision is made by every country Four methods are possible : (1) refund of contributions, (2) revival of those lapsed rights under certain conditions, on return to insurable employment, (3) continuance of rights by payment of a continuation fee, or (4) voluntary continued insurance The various national laws give preference to one or the other of these methods, though one or more may exist side by side in the same country The method of voluntary continued insurance has been most commonly adopted : in Great Britain and Irish Free State, it is open to all insured persons except married women. In other countries some restrictions exist relating to income (as in Chile), reason of ceasing to be compulsorily insured (Bulgaria), qualifying period (as in Czechoslovakia), etc. There is generally a time limit for entering continued insurance, either specially fixed or concurrent with the period of maintenance of conditional rights to benefit.

In order to mitigate the strictness of the general formula of wage-earners' insurance and to enable independent workers who feel the need for insurance to benefit under the same system as that which covers wage-earners, almost all the laws in force have adopted the method of voluntary insurance to supplement the compulsory system Voluntary insurance may take the following forms : the renewal of insurance for persons who have ceased

to be insured for a certain time (as referred to above), continuation of insurance for compulsorily insured persons who cease to fulfil the conditions laid down by the law; the development of insurance in order to secure for insured persons additional benefits; and the institution of voluntary insurance properly so called for persons excluded from compulsory insurance in virtue of the principles which determine its scope. In the last mentioned form, voluntary insurance applies mainly to independent workers who experience a need for protection on account of their economic weakness. The offer of voluntary insurance is in most countries based on a number of conditions There are physiological conditions · sex—in Great Britain married women are excluded, age—the upper age limit for entry into insurance varies between 40 to 45, working capacity—voluntary insurance is never open for invalids, and some laws (e.g., those of Austria, Chile and France) require a medical certificate; political condition: in some countries voluntary insurance is open only to nationals, e g., in Chile, France, Italy, etc Economic conditions also exist providing a certain maximum of earnings for entry into voluntary insurance.

Risks Covered

Pension insurance covers old age, invalidity and premature death (as is outside the scope of workmen's compensation) In the earlier times pension insurance in general came to be established only for the benefit of the necessitous aged. Still the German Act of 1889 covered both old age and invalidity. Survivors' pensions have been a logical corollary to the establishment of pensions for the insured persons. It has to be noted that although most of the countries have included all these three risks under a single system, some countries have separated the risks, covering only two together; for instance, in Great Britain invalidity is linked up with sickness insurance, since there is no time limit to the benefits provided under the sickness scheme. There the pension insurance scheme only cover old age and death. Further, although all the three risks may be included under a single plan, yet there may be important distinctions in

the matter of contributions, benefits, etc., as for instance in the method of computing them.

Old Age

The concept of old age has been the subject of two viewpoints. Old age may be regarded as the age at which the worker is no longer fit to work or as that at which he is regarded as having earned a right to rest The right to rest is a concept more human than scientific It is deemed to be the return for the efforts made by the individual during the greater part of his life to earn his own living, to support others and to accumulate capital for the general advantage. The worker looks to the old age pension as the escape from a life-time of hard work into a welcome condition of independence and relaxation. Such a right is recognised, but the fixing of age from which such a right may be regarded as earned is difficult. The problem may be tried to be solved in a number of ways, but the simplest seems to be that of examining statistics of expectation of life and estimating the proportion of the population to which pensions can be granted without an excessive burden on the rest of the community.

From the economic, as also from the medical viewpoint, old age is regarded as an age at which the worker is presumed to be no longer capable of working , in other words, old age is presumed to be a special case of invalidity, based on the fact that at a certain age weakness due to natural exhaustion of the body combined with the results of various diseases, etc., makes it difficult, if not impossible, for the worker to remain actively engaged in his occupation. Such invalidity is characterised not merely by a normal and probable decline of health and efficiency, but also by the difficulty of finding employment. This is indeed a vague conception, and the determination of the pensionable age is essentially arbitrary, more so, since this old age or invalidity will set in at different ages in different occupations or even among different persons belonging to the same occupation.

If each of these conceptions is given an extreme interpretation, the divergence between the two pensionable ages obtained may be great ; but a similar position may be arrived at, if the right

to rest is placed at an age high enough to coincide with that at which invalidity is in practice the normal condition. The worker desires that the pensionable age should be a fixed one and further that it should be fixed low enough to give him a fair chance of surviving to enjoy his pension for a substantial period. Between the scientific and the human concepts, the latter has been respected merely by the recognition of a definite pensionable age. Such an age has been fixed by all the national laws. It is based on numerous factors, and no definite conclusion can be reached as to the precise conception on which it is based. Actually, it is a compromise between several factors that demand due consideration. e g., need for rest, nature of work, the sex, length of his career, development of invalidity with age, difficulty experienced by elderly people in finding employment, etc. The general schemes of old age pension insurance fix the pensionable age in fact, at not lower than the age at which the majority of individuals become permanently unemployed. By fixing the beginning of old age at a certain age, a clear distinction is made between the two risks of old age and invalidity—though old age itself can be regarded as a special form of invalidity Invalidity is covered by term insurance which ceases immediately the worker becomes entitled to old age pension ; i.e., as soon as the invalid reaches the pensionable age, he gets the pension under the old age scheme, the invalidity branch ceasing to operate.

The normal pensionable age has been fixed at 65 in almost all the general schemes and even in a number of special schemes for salaried employees. Lower ages are to be found mainly in schemes for small privileged groups and several occupational schemes. The fact that women become unemployable at an earlier age than men has been generally recognised and the pensionable age for them is found to have been fixed at 60. It has been only during the last few years that this pensionable age for women has been reduced from 65 to 60 in Great Britain and some other European countries. It has, however, to be noted that the pensionable age is not always rigidly fixed. A number of schemes have introduced the option of taking a lower pension at an age below the normal and without proof of invalidity or a higher pension at an age above the normal, notably

in France (1941), Belgium, Brazil (commercial workers, 1940) and in various salaried employers' schemes.* The maximum number of years so provided above or below the normal vary from five to ten. In Chile there are three pensionable ages. 55, 60, 65, any one of which can be taken at the option of the insured person.

Invalidity

The invalidity pension is the link between the sickness benefit and the old age pension and accordingly invalidity embraces a range of states extending from prolonged sickness to premature old age Invalidity as the risk covered by pension insurance may be explained as the incapacity for work which appears to be permanent, or more clearly as, in countries possessing compulsory sickness insurance schemes, incapacity which persists after sickness benefit is exhausted. The definition of invalidity adopted by Germany in 1889 has become classic and has been adopted by numerous countries thereafter. That definition is as follows: An invalid is a person who is incapable of earning, in an employment suited to his strength and ability which can reasonably be assigned to him in view of his training and previous occupation, as much as one-third of the sum usually earned by physically and mentally sound persons of the same kind with similar training in the same neighbourhood †

Invalidity, meaning incapacity for work, may be defined in three ways: (1) in terms of the degree of physical infirmity and incapacity, (2) in terms of physical inability to carry on one's previous occupation—occupational incapacity, and (3) in terms of finding fresh employment for the invalid in the labour market—general incapacity for work. All these conceptions have already been discussed in connection with workmen's compensation schemes The conception of physical invalidity has been rarely used in invalidity insurance schemes The German definition of invalidity for the general workmen's scheme is based on a sort of compromise between the conceptions of the general incapacity for work and of occupational incapacity However, the great majority of occupational schemes for miners, seamen and railway-

* L L O, Series M, No 18 op cit, p 52 † Ibid, p 54

men, and salaried employees' schemes follow the criterion of occupational incapacity—incapacity for one's previous job or any other job which implies a similar social and economic status and is in the same field. It has to be noted that while for the manual workers, invalidity implies almost total incapacity, in the salaried employees' schemes, even partial incapacity—say, reduced by half, entitles the insured persons to pensions.

The establishment of a state of invalidity involves on the medical side that the authority responsible for certifying invalidity (1) must verify the existence of the infirmities, (2) must determine the extent of functional disturbances and the degree of care and special attention required, and (3) must indicate the type of activity which the worker is still capable of performing. On the economic side, it has to be determined whether the type of work considered possible from the medical point of view can in fairness be demanded in the same occupation or any other, according as the risk covered may be occupational or general incapacity. Then an estimate has to be made as to what fraction of normal wage will most probably be earned by the invalid worker from his activity, in view of his physical state and previous experience. It is only when this fraction is sufficiently low that the claim to invalidity pension is entertained.

The invalidity pensions are not graded according to the degree of incapacity in any scheme, except that of the U.S S.R , wherein three grades of incapacity are recognised, for the purpose of both invalidity insurance and workmen's compensation. In almost all other schemes medical graduation of incapacity is made only for workmen's compensation ; a graduated estimate of incapacity from the medical point of view is not plausible in invalidity insurance which deals with not local injuries, but constitutional diseases. Further, only in cases where incurable disease or injury is obvious from the outset, are life pensions granted immediately on the establishment of a state of invalidity. In all other cases, periodical medical examinations are made either regularly, if so prescribed by the law, or at the option of the parties. Such examinations are, obviously, necessary only till the pensionable age is reached.

One question that arises in invalidity insurance and workmen's

compensation alike is whether in fact, whenever pension is refused to a seriously incapacitated person on the ground that he is fit for work of some kind, work of the kind specified is available This is indeed a rather disheartening problem—more so in invalidity insurance since cases of serious incapacity are likely to be greater. In Germany this risk of unemployment has been expressly excluded , but it cannot be forgotten that Germany has a scheme of unemployment insurance in force and its definition of capacity for work is complementary to the definition of invalidity. Even then it has to be noted that unemployment benefits are after all limited in duration. Therefore this factor deserves serious consideration in the award of invalidity pensions, and systematic and organised efforts must be made for the rehabilitation and placement of the partially disabled.

Premature Death

The risk of premature death, as covered by pension insurance, is indicated by the economic effects of the death of the breadwinner, be he merely an insured person, or an invalid or old age pensioner, on his wife, children, who may be too young to support themselves. and other survivors. In principle, the measure of actual loss suffered depends on factors like the earnings of the insured person, his age, his expectation of life, and the number of survivors dependent on him, their ages and needs. Obviously the risk is non-existent, where the family has already been depending on resources other than his wages or pensions.

The risk is therefore defined essentially by the description of the survivors who are entitled to pensions as dependents. No scheme however fixes pensions to cover actual loss ; factors like expectation of life of the breadwinner are quite ignored. The pensions are at fixed rates, payable to certain categories of survivors only. Compensation is granted in accordance with uniform rules· e.g., all survivors of a given category are presumed to have been economically dependent on the insured person to the same degree. This degree is expressed as a percentage of the pension of the insured person or his wages.*

* I.L.O., Series M, No. 18, op. cit , p. 165.

Funeral benefits are rare in pension insurance ; but lump sum payments are often made to permit adaptation to new conditions, when survivors are not, for some reason, entitled to pensions.

BENEFITS

Conditions of Grant : Qualifying Period

Amongst the conditions necessary to be satisfied by the insured person for the award of pension benefits, that relating to the qualifying period is the most important. For old age pensions, the qualifying period serves to some extent the purpose of establishing a certain ratio between the guaranteed benefits and the contributions, or of only preventing the affiliation of persons who do not exercise an insurable profession as a genuine or more or less permanent means of livelihood In the case of invalidity and premature death, the qualifying period is important as a means of eliminating bad risks, especially those individuals who enter insurable employment only as a matter of form, actually as early candidates for one or other of the pensions. The qualifying period for invalidity or survivors' pensions varies from two to five years. In Russia it is made dependent on the age at which the invalidity begins: under 20—nil ; 20-25—2 years ; 25-30—3 years ; 30-40—5 years , 40-50—7 years ; over 50—8 years. In Sweden alone no qualifying period exists, since one part of benefits corresponds to contributions paid, the other being paid only in case of need. The qualifying period for old age pensions is in many cases much longer, being 10 to 15, 20 or even 25 years, since this pension is regarded as a benefit to be earned rather than as an indemnity to be insured for. Obligation to complete the period may therefore be waived without difficulty where the guaranteed benefits correspond exactly to the value acquired by the paid-up contributions.

Further, in all the three types of pensions, sufficient regularity must be maintained in the payment of contributions, not merely as a proof of continuing genuineness of the employed status of the insured person, but also as a factor in keeping up that average level of contribution-income, which is postulated by the benefits promised. The irregularity in payment, if due to proved

sickness, involuntary unemployment or military service, is excused in an increasing number of countries. Although regularity of contributions is an important factor for the retention of the insured status required by the completion of the qualifying period, any sort of penalisation for irregularity in payments is not common Actual provisions on the point vary a great deal. In some cases the status is retained conditionally on payment of contributions during the period immediately preceding materialisation of the risk In Germany, maintenance of rights is conditional on payment of at least twenty weekly contributions for each period of two years raised to forty, if the insured person has been in compulsory insurance for less than sixty weeks and contributes under voluntary or continued insurance Provision is often made for rejoining lost status by the completion of a fresh qualifying period There is free cover allowed to an insured person after his voluntary retirement from insurable employment, e g , Czechoslovakia, 18 months , Germany, a third of the period of paid contributions

Withdrawal from Employment

In the case of old age pensions, withdrawal from insurable employment may appear to be an implied condition for the award of old age pensions. However, such a provision is typically found only in occupational or salaried employee's schemes, with a view to facilitating the retirement of the aged members, which schemes therefore pay comparatively ample pensions In the case of schemes for employed persons generally or manual workers, such a condition has been imposed only in the U.S A and Czechoslovakia. A much higher pension is awarded in France and Rumania, if the beneficiary gives up his employment In the majority of schemes retirement is not insisted upon, since the old age pensions are hardly high enough even for subsistence, and the proportion of pensioners able to retain their employment is very small

Survivors' Conditions

In the case of survivors' pensions, the survivors have to satisfy certain conditions. The widow and the minor children are of

course the main beneficiaries,—numerous laws recognise even the widower as a beneficiary if he has been in fact supported by his deceased wife. Provisions for the inclusion of other survivors like brothers and sisters, parents, etc, in the category of beneficiaries vary The essential condition is, obviously, that all the survivors must have been dependent on the deceased, while in the case of the widow and children a state of their joint dependency with respect to the insured person is often assumed, proof of such state may have to be tendered in the case of other survivors. The chief differences among the schemes consists in the varying stringency of the condition of dependency to be fulfilled by widows. In most of the schemes for employed persons or manual workers, a widow is pensionable only if she has children to support, or if she is an invalid, or if and when she reaches the age of 65, (50 in New Zealand) It is only in Great Britain and Belgium that a widow is entitled to a pension unconditionally. Conditions relating to date of marriage are often laid down to prevent establishment of pension rights by a marriage that might only be a speculation on the worker's early death—the condition generally is that it must be prior to the date at which the husband reached a particular specified age or at which he was recognised to be invalid or granted an old age pension. The age up to which pensions are paid for children and orphans is in most countries higher than the school leaving age or the minimum age for entering employment and an increasing number of schemes allow prolongation of the period of pensions by two or three years in order to enable the children to complete their education or training.

Provisions are often made for forfeiture, suspension and lapse of right, total or partial, to benefit in events like the following. (1) the event insured against occurring as the result of the person's wilful conduct ; attempt to defraud the insurance institution ; (2) when right to benefit accrues from several insured events occurring ; (3) possession of an income exceeding specified limits—means limit—not very common ; (4) disappearance of circumstances for which the pension was granted, e.g., removal of invalidity, widow's remarriage ; (5) maintenance of beneficiary

at public expense ; (6) failure to satisfy conditions as to nationality or residence in the country.

Form and Period of Payment

The cash benefits of invalidity, old age and survivors' insurance are of course essentially pensions. Lump sum payments are rare —awarded, if at all, as funeral benefits, or in commutation of pensions, as dowries to women leaving insurance or marriage, refund of contributions in some cases, etc. As for the duration of the different benefits, the old age pension is a life annuity. The invalidity pension may belong to one of the following three types. (1) it may just be a continuation of the exhaustive sickness benefit, so given in expectation of recovery , (2) the pension may be awarded subject to periodical review and medical examination to take account of possible improvement , or (3) the invalidity pension may be given as a life annuity, if from the outset no chance of recovery is to be seen. In the case of survivors' pensions, widows' pensions cease on remarriage, and may also be suspended during the period between the termination of the youngest child's pension and the widow's attainment of the pensionable age, since in many countries widows are entitled to pension only if they have minor children to support. Pensions for orphans and widows' children continue until the orphan or the child reaches the age at which he is deemed to be able to support himself

Amount of Cash Benefit

The amount of cash benefit depends upon the method of its compensation, which in turn depends upon the purpose that the insurance benefit is desired to serve. The object may be (1) to provide a certain standard of living unconnected with his previous wages, (2) to provide the worker something of his old standard, or (3) merely to pay back as benefit amount depending upon what has been contributed. The first two objects have already been discussed in connection with sickness insurance.* The third object is stressed only in pension insurance, which has in it the " insurance " element predominantly, so that the rate

* See Chap III

and duration of the contributions are important factors. Advantages and disadvantages of giving fixed benefits at flat rates, in accordance with the first object of insurance mentioned above, and those of benefits varying with actual wage loss, according to the second object mentioned above, have already been discussed. The system of awarding benefits varying with the length of contribution period (and perhaps its rate), is suited particularly to the old age pensions, since old age is a risk that materializes regularly, the pensionable age being fixed, as contrasted with invalidity and premature death. Old age insurance is then somewhat in the nature of a saving scheme—of course, " insurance " in fact is itself a form of saving.

Both the contribution period and wages may influence to some extent the computation of benefits under pension insurance the extent depending on the method of computation adopted. The wages taken into account may be the final wages of the average wage during the period of insurance, and may be the actual wage or approximate wage from the wage-class. The effect of the " contribution period " factor varies according to the amount of the contribution, and also according to the length of time during which it may accumulate at interest. For example, at the rate allowed by the French National Old Age Pension Fund, the pension produced at the age of 60 by a given contribution is five times as great when the contribution is paid between 20-21, as when it is paid between 49-50. In Germany, in the miners' scheme, less weight is given to the earliest contributions (usually based on low earnings), and most weight to those based on wages at the time of fullest occupational activity The joint effect of the amount of the contributions and the time of their payment is broadly such that at first it increases then it is stationary for certain time and finally decreases.

The majority of the pension insurance schemes* for wage-earners or employed persons generally provide for a composite pension consisting of two parts: a basic sum, plus a supplement. The basic sum, due to every claimant who has completed the qualifying period, may be uniform for all pensions, as in

* For detailed classification of national schemes in respect of computation of cash benefits, see I.L.O., Series M, No 10, op. cit., pp. 215-19.

Germany, or be a fraction of the average wage for the individual, as in the U S.A. The supplement consists of a fraction of the total contributions paid in respect of the individual in the course of his insurance career, the contribution itself being a percentage of his wages. The entire pension is thus a combined result of two modes of thrift: the basic sum being provided by the "insurance" method and the supplement by saving. In spite of the soundness of the idea of such a composite pension, in reality the basic sum is far below the subsistence level and in most countries as many as thirty years' working life brings the pension to a not unsubstantial amount, viz, 40 to 50 per cent of average earnings

The conception of the purpose of compulsory insurance that a certain standard of living ought to be provided without any reference to the actual wages earned has predominated in Great Britain, where pensions are awarded at flat rates uniformly, without any connection with the number of contributions paid, while the contributions themselves are fixed and are independent of wages. These benefits too are below subsistence level, but it is interesting to note that they were higher than the average paid by the German scheme, in 1931 Great Britain in 1940, introduced supplementary pensions to bring up the total amount of pension to the minimum subsistence level Sweden and Finland have a similar structure of benefits. In Denmark and New Zealand, a pension sufficient in itself for existence is provided and is paid in its entirety to persons of limited means ; but is reduced in other cases

As to the problem of adapting pensions to the changing cost of living, in general no positive provision has been made for such adjustment, except in Denmark The general tendency has been to effect temporary alterations by temporary ad hoc legislation, if necessary, with the help of subsidies Nevertheless, the Polish manual workers' scheme of 1933 has provided an adaptation of the basic sum to the changes in the general level of wages A Bill under consideration by the Chilean Congress in 1941 (perhaps by now made into law) sought to apply the idea of a flexible basic sum even to pension already begun.*

* I L O, Series M, No 18, op. cit, p 59

According to the Bill, the minimum pension is to vary in specified manner with the individual wages during the last sixty months of insurance, but is never to be less than a specified proportion of the general average wage of all contributing members during the immediately preceding year.

It has to be noted that the pension rates for the three contingencies are necessarily inter-dependent. The invalidity pension should preferably be less than, or at least not greater than, the old age pension substituted for it when the pensionable age is reached. In some schemes like those of New Zealand, Great Britain, the two pensions are almost equal The German method, however, has proved a popular precedent and most schemes provide for an invalidity pension which, starting from a minimum substantially lower than the normal old age pension, gradually approximates to the latter in proportion to the time spent in insurance, and becomes exactly equal to the old age pension when the pensionable age is reached. Survivors' pensions are generally calculated with reference to the pension which the deceased was receiving or to which he would have been entitled if he had been an invalid at the date of his death The maximum for survivors' pensions is so fixed that they cannot exceed the corresponding invalidity or old age pension

Benefits in kind in the form of medical assistance are important in pension insurance, not merely as curative measures and treatment, but more particularly as preventive measures systematically designed to combat the illness prevalent among the classes of population, whose means of livelihood are only limited. Insurance institutions often assign a specific object to their activities, that of restoring earning capacity and preventing or at least retarding invalidity.

Medical Benefit

The persons that are entitled to medical benefit are of three types: the insured persons, pensioners and the dependants. The insured persons are generally also entitled to medical benefit from the sickness insurance institution but help by the invalidity fund is important especially when sickness benefit is exhausted —of course in Great Britain no such distinction is made. As

for the pensioners there exists in many cases a possibility of removing, or at least mitigating by suitable treatment, the infirmity on account of which pension was originally granted. Even otherwise the benefits in kind can be of great use to any pensioners in case of need whether they draw invalidity, old age or survivors' pensions. Certain laws extended the medical benefits also to the dependants of the insured person.

Provision is made for preventive care and curative treatment in most schemes of invalidity pensions Periodical medical examinations have been attempted only in Chile. Co-operation, in the work of detection of diseases on a local basis has been found very useful between sickness insurance institutions and invalidity insurance funds, where these two exist separately. The sickness insurance fund because of its close touch with its members, can give a regular account of their state of health. It must in fact notify to the invalidity insurance fund all cases of specific diseases or complaints which if prolonged beyond a certain period may eventually produce invalidity. Invalidity insurance institutions can have their own clinics for diagnosis and treatment or can have them in common with the sickness insurance funds. In Great Britain only the general practitioner's treatment is granted by law In France insurance covers the cost of general and special medical attendance, pharmaceutical expenses, supply of appliances, treatment in a hospital or on curative establishment, and the expenses of conveyance and, if necessary, surgical treatment. Generally the duration of the medical assistance provided by invalidity insurance institutions is not limited. In Germany and some other countries, the nature of treatment, etc., is left to the discretion of the insurance institutions.

As for the organisation of the medical service, the invalidity fund may either have recourse to the sickness fund or may organise a medical service of its own. Whenever invalidity funds render assistance to persons who have not yet exhausted their sickness insurance rights, the sickness fund has to refund the expenses. In some countries like Germany, the invalidity insurance funds have set up their own medical institutions like nursing homes, clinics, centres for specialist treatment and

convalescent homes. The insurance institutions also pay attention to things like development of medical equipment, education in hygiene, etc., etc

ORGANISATION

Insurance Institutions

The great variety of insurance institutions which is encountered in the workmen's compensation schemes and more particularly in sickness insurance scheme is not to be found to the same degree in the field of compulsory invalidity, old age and survivors' insurance, for reasons which proceed from the very nature of the risks covered. The private company and the friendly society play an important part only in certain few countries like Great Britain, Irish Free State and some American States. Even in Great Britain and Irish Free State, private companies and friendly societies do not, except in the case of invalidity insurance, play any part in pension insurance as contrasted with sickness insurance. In Germany and Spain private companies are allowed to participate for the purpose of providing additional insurance. The principal type of institution to be found in the majority of the countries is a fund of legal origin, being either an independent public institution or a State insurance fund. In any case, the basis of organisation is either occupational or territorial (and inter-occupational). While in some countries like Rumania and Russia, State funds constitute the sole type of insurer, in some other countries, they may be only, one though predominant, of several institutions.

Before pension insurance was made compulsory, there existed retirement funds for public servants, employers of large and stable undertakings like railways, and for miners and seamen. The ideas of these occupational or establishment funds have influenced largely the general schemes for manual workers or employed persons. Autonomous or democratic government of the insurance institutions is less marked in pension insurance than in sickness insurance, perhaps because of the weak or almost non-existent tradition in this respect for the newly created pension institutions. Still, most general schemes are administered with the participation

of representatives of employers and workers—since the right of being represented corresponds to the duty of contributing. Representative government, though partial, does sure maintain the confidence of the contributing parties in the beneficial nature and financial policy of the institution.

In several European countries, pension insurance in its organisation has a single national institution for the manual workers, one smaller fund each for salaried employees, miners, seamen and railwaymen and a number of establishment funds. Now, pension insurance providing adequate benefits in the case of old age, invalidity and premature death is costly and the general schemes for manual workers offer benefits which represent hardly more than a bare minimum of subsistence Groups with higher salaries can make better provision for themselves than what a general scheme intended mainly for manual workers could offer. In many cases therefore these groups have their own pension funds which also emphasize the social class, and these have continued to exist side by side with the general scheme. Their members are exempted from insurance under the general scheme, if those funds are of statutory origin or offer benefits that are at least equivalent to those provided by the general scheme. Though in countries with numerous established funds, amalgamations have often taken place recently, a general tendency to concentrate the whole of pension insurance in one scheme is not to be much seen. The State subsidises the general scheme only. In pension insurance elaborate rules have to be made for transfer from one scheme to another, with the person, of the actuarial reserve for his accuring rights, or else the several institutions concerned are required to share in a joint pension when the claim matures.

The formation of the insurance institutions is governed by almost the same considerations, as in sickness insurance. They may be formed by a public authority, by private initiative or by the State. In most countries, pension insurance has been centralised from the outset, the State having created a single national institution to administer it , and the reason is that the payment of pensions to invalids, the aged and the survivors requires a large body of insured persons in order that the mass

of risks should yield an even " claims " experience and financial security may be ensured with a large accumulation of capital to cover accruing and accrued pension rights. The existence of funds founded on private initiative is precarious, except in a few countries, so far as the general workers' schemes are considered For formation of institutions on private initiative conditions like a certain minimum membership, absence of the profit element, minimum amount of capital are laid down. Such funds on formation have to get legal approval and legal status. The insurance institutions may belong to any of the three types, viz., an account, an establishment, or a society. An insurance account is administered by the State, but the moneys are separate from the general finances of the State (e g., " Pension Accounts " of Great Britain) An insurance establishment is an institution created by the State. It has its own administrative machinery, budget and moneys, separate from those of the State (e.g., the regional insurance institutions of Germany). An insurance society is a body, as a rule founded by private initiative and then endowed with the privileged legal status,—administering mainly the salaried employees' schemes

As for the membership of the institutions, one of the two systems may be followed system of compulsory affiliation and that of subsidiary compulsory affiliation According to the first, the persons liable to insurance are obliged to join a particular institution as required by law which either provides a single institution or prescribes definitely the jurisdiction of each in respect of persons insurable. This system is useful inasmuch as it gives greater certainty to actuarial forecasts, secures a proper averaging of the risks covered by each institution and enables administration to be simplified. This system has been adopted in numerous countries including Chile, Australia, Germany, and Russia According to the second system, the person liable to insurance can choose an insurance institution for his risk, in the case of failure to exercise which right, he becomes automatically affiliated to one institution or the other in accordance with law.

As already stated, State administration is found only in few schemes including those of Chile, Denmark, Great Britain (where

approved societies also play a small part). Most schemes are administered with the participation of representatives of workers and employers When managed entirely by the State, the administrative body is a public service directed by a civil servant and in the last resort by a Minister In all other cases, whether the administration is by self-government alone or combined with the State, management is entrusted to a series of bodies like the general body, governing body, directorate, financial or supervisory committee, etc

Other questions connected with insurance institutions are those of federation and supervision Apart from all the advantages of a federation, discussed already in connection with sickness insurance, one is most important for pension insurance and that is reinsurance of risks The question of supervision also need not be considered here in detail again Supervision may relate to the legality or the expediency of the administrative action of insurance institutions Action may be taken by the supervisory bodies, where legality is concerned, in accordance with law, where expediency is concerned Actions of a certain kind may be expressly reserved for the approval of the supervisory bodies Supervision is exercised by means of calling for information, inspection and review.

Transitional Schemes

The question of transitional schemes may be briefly mentioned here.* At the time of the introduction of compulsory insurance, there are many workers who through no fault on their part, have to be excluded from the scope of the compulsory scheme. These persons, the disabled or those who have passed the age limit for entry into insurance, cannot be blamed for the non-existence of an insurance scheme during their work life. In the transitional schemes for such persons, the risk of invalid is rarely covered . the cash benefit consists of a fixed sum, not generally dependent on wages or on length of employment

Some Observations

The public demand for pension insurance and protection is

* For details, see I L O . Series M No 10. op cit . Part VI

generally wider and stronger than for sickness, but pension protection is difficult to furnish because of the very high immediate cost. The State has generally tried to widen the scope of pension insurance as far as possible Almost all schemes offer voluntary insurance for those outside the scope of compulsory insurance. Agriculture deserves to be included in the scope of pension insurance, because the difficulties that the extension to agriculture of sickness insurance involved are not so important in pension insurance. As to the pensionable age, in recent years, its reduction to 60 from 65 has been generally demanded as a means of relieving labour market especially in the depression periods , but considerations of cost have resulted into the rejection of the proposal In fact, in some countries (especially, the Latin American) the mounting pension expenditure has caused the age to be raised from 60 to 65 in the schemes recently introduced Actually, there is always pressure to vary the pensionable age with the state of employment in the country. The great problem of pension insurance has been securing of benefits adequate for subsistence The invalidity pensions in schemes for manual workers are generally quite insufficient for maintenance, unless invalidity sets in late in middle life The old age pensions, after thirty years or more of insurance, just approach the standard of adequacy for maintenance The root of the problem is, in every country, financial the great cost of adequate pensions, and the great difficulty, political as well as economic, in meeting that cost The only solution to this ever-existing problem, apart from improvements in the technique, seems to be the supplementing of the pension benefits by assistance schemes, put systematically on a permanent footing The provision for dependants' allowances or family allowances in the form of bonuses in an increasing number of countries to relieve the scanty nature of invalidity and old age pensions, is welcome

CHAPTER V

UNEMPLOYMENT INSURANCE

Unemployment

UNEMPLOYMENT, the outstanding economic and social problem which any industrialised country has had to face during the twentieth century, is the latest addition to the risks covered by compulsory social insurance It has been, with the significant exception of the years during the war of 1914-18 and the present war, a chronic disease of industry, a running sore in the body politic. It is, perhaps, as William Beveridge prefers to call it,* not a disease, but a symptom of one or more several distinct diseases comparable with a high temperature arising from various causes But for these periods, never has capitalism been able to offer anything approaching full employment of the labour resources of the nation despite all manner of schemes and devices advocated as remedies for this sovereign ill Unemployment has been inherent in the industrial process, the inevitable concomitant of the factory system and an acquisitive society With its paradox of "starvation amidst plenty," it has presented the greatest challenge to the existing social order

The past two decades have witnessed a radical change in the attitude towards unemployment Hitherto it was commonly alleged, especially by the better-off classes who were not subject to its miseries, that unemployment was caused either by a reluctance to work or by some moral defect or some vocational incapacity on the part of its victims The myth that unemployment is only a form of industrial malingering, that all who really wanted work could find it if they tried hard enough, has been exploded The accepted view today is that unemployment is not a problem of individual character, but one of industrial organisation, a view that has been very ably expounded by Sir William Beveridge in his book significantly entitled, *Unemployment, A Problem of Industry*.

* *Causes and Cures of Unemployment*, by William Beveridge, p 50.

Unemployment may be termed the " shadow side of economic progress ",* for an unemployed person is one who, despite his willingness and capacity to work, is unable to do so for reasons inherent in the organisation of commodity production In other words, unemployment is a condition of the labour market in which the supply of labour power is greater than the number of available openings. The extent of unemployment, especially since the last war, has been serious For instance, in the pre-war period the margin of unemployment in England varied from 2 per cent , even at the height of industrial prosperity, to 12 per cent in times of economic depression. Since the conclusion of the war, however, unemployment has assumed much more alarming proportions in many countries of the world. " At the beginning of 1932, there were at least 25,000,000 unemployed in Europe and America, and this total was at least four times as great as the total three years before "† Mass unemployment is a peculiarity of modern capitalist economy with its extreme division of labour, its method of production, distribution and income accumulation, all conditioned by the mechanism of price, profit and the market dominating the productive process.

Unemployment may be distinguished as unemployment in particular trades and that of a more general character affecting many trades and several countries simultaneously As regards the former, there are certain seasonal trades such as agriculture, building, cotton-ginning and fishing, in which demand for labour is also naturally seasonal During certain periods of the year the workers in the seasonal trades find themselves out of their regular work. Such seasonal unemployment recurs regularly Unemployment of a general character affecting several industries in a number of countries simultaneously, known as cyclical unemployment, results from widespread periodic movements of trade depressions which alternate with business prosperity, in almost a rhythm that has in recent years shown a marked tendency to shorten. Various theories have been put forward from time to time by economists The physical or the " sun-spot "

* *Insurance against Unemployment*, by Joseph Cohen

† G. D. H. Cole, *The Intelligent Man's Guide Through World Chaos*, p. 331.

theory, worked out by Jevons on the suggestions of the astronomer Sir William Herschel, tries to establish connections between the appearance of sun-spots with climatic conditions affecting meteorological conditions and through them harvests, these in turn affecting ultimately the productivity and purchasing powers of the world. The psychological theory, supported amongst others by Pigou and Marshall, regards industrial prosperity and depressions as little else than reflections of rhythmic movements of elation and dejection of the human mind. According to the monetary theory, ably propounded by Hawtrey, the defective working of the monetary and banking structure in respect of credit puts our system out of gear from time to time. Hobson with his under-consumption (over-saving) theory argues that in our present economic organisation wages lag behind prices, and therefore when trade is expanding and prices are rising, business profits increase faster than wages, resulting in over-saving and over-investment (especially in the basic trades), the demand from the great mass of consumers lagging behind. Of these theories, the psychological one doubtless contains an element of truth, but at the same time one has to go behind these mental phenomena. Money and credit are also important, though not the sole, factors underlying the trade cycles. There is thus no single all-embracing explanation of the trade cycle and the cyclical unemployment following in its wake.

Apart from the cyclical or seasonal unemployment, we have what may be appropriately termed "normal" unemployment. Unemployment is a condition created by, and inherent in, an economic system based on free enterprise The unemployment problem in its present form is a special product of the industrial revolution Industry needs a reserve of labour to draw upon at will Ideally, when business is prosperous, the reserve is small, and should be reduced to little more than workers passing from one job to another During a depression, however, the reserve mounts up The normal unemployment is often about 2 per cent Pigou describes it as "an intractable minimum below which the percentage of unemployment never falls". Beveridge calls it "an irreducible minimum of unemployment" A closer examination of the nature of this normal unemployment shows

that it represents mainly incessant loss of time now by some again by others of a much greater number of men, each of whom on the whole gets a fair amount of employment.* Men out of work on any day are only that day's sample of the labour reserve. This normal unemployment sometimes swells owing to factors, apart from cyclical fluctuations, like loss of foreign markets, or new inventions through technological advance whereby entire branches of industry may be condemned to rapid decay, and workers to chronic idleness.

Its results

The adverse effects—social, economic and political—of unemployment are obvious. To the labourer unemployment is his gravest and most appalling problem. It is the paramount evil in his life. His livelihood, his savings, his belongings, the happiness of his household and all he cherishes are continually threatened by this Damocles' sword, which, at any moment and for reasons over which he has no control, may fall on and reduce him to penury. Homes may be broken up and huge armies of homeless children may arise, resulting in physical and even moral degeneration and decay. Unemployment is not only a barometer of economic well-being but also a measure of the social burden of labour.

Struggle against unemployment

The struggle against unemployment—to reduce unemployment or to mitigate its effects—has taken many forms as indicated by the various causes of unemployment. Employment exchanges have been created to facilitate placement of workers, thereby tending to promote mobility of labour. So far as unemployment is due to cyclical fluctuations, preventive measures are not easy to suggest, although better monetary and credit policies and systems, a better adjustment between production and consumption, etc, should help In the U S.A., measures to stabilise industry were promoted in the hope of regularisation of employment. Public works have been timed to provide employment at crucial periods. Unemployment arising from fundamental struc-

tural changes in industry, and from certain personal limitations, calls for skill in placement, vocational counsel, and trade training or re-education. In all cases, help has been provided by public relief and charity, though it has often proved inadequate.

Unemployment insurance has played and is playing a part of growing importance in giving relief to the unemployed in countries like Great Britain and Germany. Though not a perfect panacea, it has proved a valuable weapon far more useful than public relief or charity. Despite its dominantly ameliorative purpose, unemployment insurance, as operated in many countries now, has certain preventive features : Its usual correlation with a system of public employment exchanges has made for a better organisation of the labour market and has served to cut down preventible unemployment Less directly a system of regulated benefits has helped to prevent the undercutting of the wage-standards of the employed and has contributed towards the maintenance of purchasing power One constructive feature is the provision of adequate statistical data as to the nature and incidence of unemployment. In short the supply of labour has been rendered more capable of following and waiting for the demand—of following the demand through the labour market organisation, of waiting for it through insurance.

Growth of Unemployment Insurance

As in other types of social insurance, the origin of unemployment insurance is to be found in the benefits systems established by the trade unions, early in the nineteenth century, along with a correlated system of placement service. However the efforts of the trade unions had only a limited scope, in the earlier stages, because trade unions consisted mainly of skilled workers—while the unorganised mass of working population, commonly the lowest paid and the most insecure, was left to resort to poor relief—in the later stages, even when trade unionism spread to larger sections of factory and other workers, because the trade unions then concentrated more on division of work in slack times than on relief on account of paucity of funds. In the last decade of the nineteenth century, the catastrophic rise in unemployment brought

about governmental participation in unemployment funds on a municipal basis mainly through subsidies to existing trade union funds.

Unemployment insurance was first introduced on a voluntary basis in 1901 in the Belgian city of Ghent. The Ghent plan was in essence a system of public subsidies to trade union funds, with some measure of public control over the administration. Membership was in principle open to all individuals. Employers were not required to contribute. This plan was copied in many European countries, and at the outbreak of the last war, membership of such funds was as follows* :

	Percentage of trade union membership	Percentage of the total wage-earning population
Denmark	86	56.1
Norway	51 4	20.6
Belgium . ..	62 2	7 1
France	22 6	.04

It has to be noted that the last two countries are the more highly industrialised countries, necessarily having a far greater proportion of wage-earners in their population

Great Britain was the first country to introduce a scheme of compulsory unemployment insurance (1911) The British plan, when it began operating, applied to about 2,500,000 workers, several times as many as were covered by all public voluntary schemes in other countries. In 1933, out of 42,000,000 insured persons covered by all unemployment insurance plans put together, 38,000,000 were in Great Britain Germany, " the classic land of social insurance," entered this field as late as 1927 This tardiness is attributable to various factors like the following existence in the pre-war period of well-established trade union benefits often combined with municipal subsidies , in the post-war period unemployment was comparatively low and afterwards the inflation absorbed the unemployed After nine years of experimentation it was realised that compulsory unemployment insurance must replace relief. Russia enacted a comprehensive compulsory scheme in 1922, but suspended it in 1930 on the

* *Encyclopaedia of Social Sciences*, Vol XV.

ground that there was no unemployment in the U.S.S.R. In the U S.A adoption of compulsory unemployment insurance was opposed in the beginning, not because unemployment was low, but because both the structure of the Government and the character of public opinion operated against the acceptance of the idea of unemployment insurance. It is only in the last ten or twelve years that this attitude towards unemployment assurance has changed in the U.S.A. By 1941, compulsory insurance was adopted in about a dozen countries, while a somewhat smaller number were still experimenting with a subsidised voluntary insurance using trade unions as their agencies, roughly along the lines of the Ghent plan Most of the schemes of compulsory unemployment insurance known to be in force at the present time have been established very recently or reformed within the last few years—Canada (1940), Great Britain (1935 and 1940), Italy (1939), New Zealand (1938), Norway (1939), South Africa (1937), United States (1935-40).*

Scope

With regard to the criterion which in practice defines the scope of unemployment insurance, there is a close analogy between unemployment insurance and workmen's compensation, viz , in both cases the scheme by hypothesis can cover only employed persons. Unlike sickness insurance or pension insurance, the question of " popular " insurance or " national " insurance does not arise here. Compulsory unemployment insurance, however, has not attained as wide an application as workmen's compensation has, in the small number of countries that have introduced it. The reasons are obvious : unemployment insurance is only a recent and much later development and has no such imperative principle as that of employers' liability to support it.

Industry and Commerce Only

Compulsory unemployment insurance covers in the countries in which it has been introduced persons employed in *industry*

* I.L O *Approaches to Social Security*, M 18 (1942), p 62

and commerce. In Great Britain now about 15 million persons are compulsorily covered.* *Agriculture* has been *excluded* everywhere, *except* in Great Britain, which introduced a special scheme for farm labour in 1936. In Germany they were included up to the spring of 1933—their later exclusion was the result of efforts to cut down the liability of unemployment funds under pressure of heavy unemployment.† The exclusion of agriculture is not attributable to the same reasons in all countries. In the American schemes, it is mainly due to political reasons. In general, the exclusion of farm labour appears to be due to three factors : The opinion is widely held that there is little unemployment in agriculture and that employment in it is relatively steady. Much of agricultural employment being normally of a seasonal or casual nature—gives rise to two consequences, viz , agricultural employment is not in many cases perhaps the chief means of livelihood of those who engage in it , also the administrative difficulties are considerable in the case of seasonal workers hired during the harvest season by a number of perhaps widely diffused employers Lastly, the number of farm labourers in proportion to the number of employing farmers is often comparatively small As already stated, Great Britain introduced a special agricultural scheme in 1936. It applies to all persons employed under a contract of service in agriculture, horticulture and forestry. The general list of excepted employments, which are not insurable under the main scheme, applies here also where appropriate, with the addition of the following · employed persons bearing specified relationship to their employers Employment in certain agricultural operations is not insurable under the scheme in cases where it is not insurable under the health and pensions scheme. Private gardeners are included ‡

There are a number of other excepted employments *Domestic service* is excluded specifically in Austria, Great Britain, Irish Free State and Italy Germany joined this group of countries by excluding domestic servants from 1933, for much the same reasons as those underlying the exclusion of farm labour. Factors

* *Social Security*—Ed Robson, p. 113

† *Encyclopaedia of Social Sciences*, Vol. XV

‡ Percy Cohen, *Unemployment Insurance and Assistance in Great Britain*

for exclusion are political in America and in general, they are the administrative difficulties There seems to be little unemployment amongst the domestic servants of whom in a number of cases there is a relative scarcity rather than a surplus On grounds of expediency, the solution should be to exempt domestic service in private households, but to include those employed in commercial establishments such as hotels, restaurants, laundries, etc. *Home or contract workers* are excluded in most countries. The main difficulty concerning them is about the determination of whether those who work in their homes on jobs put out to them are in fact unemployed, as also the determination of the degree to which they are partially employed Government employees and school-teachers are generally exempted on the assumption that their occupations present a very low hazard of unemployment. Salaried employees getting a salary exceeding a specified maximum are exempted in all countries In Great Britain, non-manual workers earning more than £420 a year are exempted. In Germany, the limit is placed at 6,000 marks a year.* In Italy, persons drawing over 800 lire a month are exempted.

Seasonal Workers

The covering of seasonal workers presents a tough problem in unemployment insurance Seasonal trades cannot obviously be ignored. The main objections to their inclusion are two : seasonal workers tend to be compensated for their periodically recurring unemployment by higher wage rates when employed. Further, payment of benefits means in their case their receiving back again each year the money which they previously paid in so that there is little or no redistribution of these sums between individuals, and the system becomes merely a form of compulsory saving With regard to these weighty points, it may be pointed out that it is doubtful whether such allowances (as higher wages) are adequate for the general class of unskilled or semi-skilled workers. Such allowance has necessarily to be an average one, superfluous for some, inadequate for others If a system of insurance is adopted such addition is needless, and only the needy persons get the benefits As to the second objection, it has to

* *Unemployment Insurance in Germany*—M R Caroll (1929), p. 50.

be noted that the incidence of seasonal fluctuations is in general not distributed evenly over a group of workers in the form of reduced employment for all, but commonly affects individual workers to a very differing degree, so that payment of benefits is not in all cases merely a return of what has been paid in as contributions. Further, for purposes of exclusion, it is not easy to identify the precise industries which should be included in any category of seasonal occupations, since such a characteristic is more or less a matter of degree. Another fact is that workers in seasonal trades are liable to suffer also from other causes of unemployment, e.g., trade cycles, technological improvements, changes in consumers' demand, etc Exclusion will, therefore, mean an unsound assumption that the only causes for unemployment in seasonal trades are seasonal fluctuations

Seasonal workers are thus not generally specifically excluded ; but a restriction, found in all countries, that arises out of the clauses which stipulate a certain previous period of employment in the industry or a definite number of contributions to the fund, in practice usually excludes seasonal workers In Germany, seasonal workers must have been employed for at least twenty-six weeks in their avowed occupations during the year preceding their registration as unemployed In Great Britain, the seasonal worker must give proof that within each of the preceding two years he has been employed in some other insurable occupation during the off season or has a reasonable chance of being so employed * Seasonal workers are generally restricted to benefits during the work season The best way seems to be to impose a longer waiting period for the pronouncedly seasonal trades, so that, amongst those unemployed due to seasonal factors, only those out of work for more than the average period will be protected as will also those thrown out of work owing to cyclical and technological factors Such a limitation has been used in Germany† and has much to commend it.

The physiological conditions affecting the scope of unemployment insurance relate to age and ability to work To be genuinely unemployed, one must necessarily possess the capacity

* *Encyclopaedia of Social Sciences*, Vol XV

† M R. Caroll, *Unemployment Insurance in Germany* (1929), p 56

to work. As for the conditions relating to age, Germany and Great Britain relate their minimum age requirement to the age when compulsory schooling ceases—14 years. In Great Britain, if a boy (or girl) continues education after the statutory school-leaving age, he or she can be still credited with contributions to the Unemployment Insurance Fund as follows ten contributions for 12-18 months at school, fifteen for 18-24 months and twenty for 24 months or more.* In other countries the minimum age varies from 15 in Bulgaria, Finland and Italy to 18 in the case of Denmark and Queensland In Switzerland it varies between 16 to 20 The upper age limit is often correlated with the year at which old age provision begins (60 or 65)

Risk Covered

The risk covered by unemployment insurance is the risk of involuntary unemployment, the inability of the able-bodied and the willing to find employment. The fact of the insurability of unemployment as a risk took a long time to be accepted, especially in the United States of America, the controversy raged for a considerable length of time

Unemployment is a definite economic hazard, resulting in measurable economic losses and human distress Like all other economic hazards, it may be provided for by means of the mechanism of insurance that distributes the losses in space, times and numbers Such provision for these losses and suffering, like individual savings, private philanthropy, public relief, etc , have proved inefficient or at least inadequate

Insurability of the Risk

It is worth while to examine briefly how the unemployment risk is insurable. Insurance is, as has already been remarked, a mechanism for reinforcement of losses sustained by some individuals included in a large group, all of whom are subject to the hazard of such losses but do not suffer such losses at the same time Our enquiry might be along the following lines †

* *Social Security*—Ed Robson, p 114

† *Annals of the American Academy of Social Insurance*, p 43

What are the basic conditions necessary for successful operation of an insurance scheme? What difficulties do they find in application to the risk of unemployment? Is that the only field in which the difficulties arise?

In order that it may be insurable, a risk must be predictable. It is highly desirable to be able to predict exactly the amount of future hazard or damage With considerable experience, this condition has been realised to a fair degree in certain lines of insurance. However, the regularity of mortality tables is not an absolute one Epidemics, wars and the like may almost double the expected mortality. Further, the degree of accuracy applies to mortality tables as a whole; it cannot apply to each and every one of the thousand insurance companies operating in the field In fact, individual insurance companies protect themselves by assuming a heavier mortality than one actually expected The return of the excess, made every year by insurance companies with a generous gesture, is actually only an admission of the inability to predict losses within closer limits. Further, it is common knowledge that the early insurances were based only on crude guesses, and later adjusted as experience accumulated Certainty as to the probability of occurrence and predictability as to the extent of damage are necessarily found to be greater in the older forms of insurance and less in the newer ones Relative certainty can be obtained only on the basis of past experience

The contingency must be one which can be verified with reasonable certainty. This condition again has no special difficulties for unemployment insurance Difficulties of verification exist also in many forms of insurance · fire, burglary and theft, etc., checking up is necessary in every form of insurance.

The contingency must be one which, when it occurs, may not happen simultaneously to all the insured, or to a relatively large group thereof, but only in any given occurrence, to one or to a limited number of individuals It is agreed that the contingency must not happen "to all insured persons simultaneously", but the distinction between a "relatively large group" and "a limited number of individuals" is not easily drawn. How many are a "limited number" and how many are a "relatively large group"? Again, the danger that a

contingency may strike an excessive number at once exists in all forms of insurance as in unemployment. Obviously, unemployment never can simultaneously affect all the insured ones, unless an entire industrial system breaks down.

Distinction between unemployment insurance and other branches of insurance is one of degree and not of kind. Unemployment at times attained the dimensions of a catastrophe, and in spite of all efforts it may do so again Unemployment insurance rejects responsibility for the catastrophic sector of the unemployment field and confines itself to unemployment which, averaged over a certain period, does not exceed a moderate volume. It thus obtains a credible basis for its contribution—benefit arrangement The catastrophic hazard of a contingency striking an excessive number at one and the same time exists in many forms of insurance. It is undoubtedly great in unemployment insurance, where it is not only a hazard, but almost a certainty, bound to occur sooner or later and oftener than in other branches of insurance This factor is however, in fact, from an actuarial point of view a decided advantage,—not a thing that renders insurance impossible. It must be reckoned with Knowing this, the actuary can see to it that during normal years as large a reserve as possible is provided for to meet the contingency of an industrial depression Anyway, unemployment insurance accepts a more limited liability It covers the greatest part of unemployment, except in periods of severe depression, the rest it leaves to other social services.

It may be argued that unemployment is not insurable, because adjustment of rate of premium to degree of hazard is impossible ; further that when a uniform rate is provided, though the degree of hazard is variable, this legislation leaves the domain of true insurance. But it has to be remembered that close adjustment to the degree of hazard is not always possible in other forms of insurance and that it is not always practised. For example, in the case of life insurance the factor of age alone is taken into account, though many other factors influence the death hazard The unlimited variations in the state of health cannot be measured accurately by the medical examination. There are factors like the profession, married or unmarried state, over-

weight or under-weight, the absent-minded or the short-sighted man, the glutton and the man of moderate tastes, etc., etc.,—all these factors have been neglected In fact, if all factors of hazard could be determined in advance, there would be no insurance, for each risk would have to pay for its own losses, and the value of the insurance mechanism as an instrument for distribution of unexpected losses would be destroyed Rate adjustment is valuable in so far as it may be utilised to stimulate efforts at prevention.

Nature of the Risk Covered

Insurance against unemployment does not afford complete coverage Only limited temporary unemployment is covered Complete insurance is not to be encouraged, because it very dangerously shades into over insurance and offers an incentive to losses Full restoration of loss through insurance is, as has already been remarked, bad insurance as well as bad psychology The British scheme came into difficulties when at one stage it tried to assume practically the entire load of unemployment by giving benefits for an unlimited period

The risk covered by unemployment insurance is essentially temporary unemployment, not caused or continued by the fault of the worker, or by physical handicaps involving the responsibility of other branches of social insurance Such covering in practice determines in general the conditions to be fulfilled before the insured persons can be eligible for the receipt of cash benefits The qualifying conditions imposed for the grant of cash benefits are strict.

Cash Benefits

Conditions of Grant

In the first place, the claimant has to show that he is a person whose normal occupation is the exercise of an insurable employment, because the term "unemployment" can properly be applied only to those who are customarily employed. For that purpose the test is a *minimum density of contributions* or *a minimum period of prior employment.* This period should be long enough to exclude workers who enter industry for only

one season a year, but who are not primarily members of the permanent labour supply. In Great Britain he must have paid thirty contributions in the last two years (twenty, if he is in the agricultural scheme) * But he need show only ten contributions if his lack of employment was due to war disability. In Germany, the period is twenty-six weeks during a year. This qualification about the requisite number of prior contributions may not be gained through mere payment into the unemployment insurance fund Employment itself is pre-requisite † Periods of sickness are taken into account in most countries, also periods of work in some excepted employment may be so taken into account

The next set of conditions relates to the *manner in which the last job terminated* A job may be lost in either of the following three ways (1) he may be dropped from employment, though his services have been satisfactory, because of a decline in business necessitating the employment of fewer men , (2) by voluntary withdrawal, perhaps on account of a trade dispute, although he can continue, if he so wishes , (3) by discharge—where the worker is adjudged unsatisfactory by the management for one reason or the other, and is accordingly dropped, though there is still need for a workman in the given position. Of these, the first is a case of genuine unemployment It is a different matter in the other two cases Voluntary withdrawal on account of strikes is commonly disallowed for eligibility for cash benefits ; whatever may be the merits of the strikers' action, they cannot be said to be unemployed against their will. Loss of job through a lock-out is also a disqualification , the reason is this : many lock-outs take place in anticipation of strikes and vice versa It is difficult for the administrative body to decide which of the two sets of national combatants is guilty of the offensive. Therefore it has been deemed wise to profess neutrality and leave out both the strikes and lock-outs as eligible grounds for unemployment benefit. Incidentally, it may be emphasized that this neutrality must be carried to its logical conclusion by not requiring workers in receipt of benefits to

* *Social Security*,—Ed Robson (1943), p. 115.

† M. R Caroll, *Unemployment Insurance in Germany* (1929), pp 21-52.

take the jobs temporarily vacated by strikers or those locked out. Anyway, some penalty should be applied to those who are justly discharged or who quit without just cause. The English system imposes a maximum disqualification of six weeks and the actual period may be very much less than this. The German maximum is four weeks. In general, it varies from four to eight weeks. Permanent disqualification as provided in the Wisconsin (an American State) Act is certainly not desirable. These disqualifications would not of course apply to those who leave their jobs on adequate moral and hygienic grounds or for grave family reasons, nor to those who were unjustly discharged

Further, the unemployed person must be *able and willing to perform* some kind of *work* which he has a reasonable expectation of obtaining It is provided that he must accept suitable employment if and when offered There are two main sets of criteria which may be used to determine whether or not a proffered job is " suitable ", viz., those relating to wages and those relating in a broad sense to working conditions. The job must carry with it the going rate of wages for that trade and locality. The work offered should ordinarily belong to the type of his usual work, yet care has to be taken to prevent undue pools of idle labour in decaying trades and localities Relevant provisions vary greatly. In Czechoslovakia, the unemployed person is obliged to take any employment which will not hinder his return to his original occupation ; free transportation to a new place of work is provided In France and Spain, he is not required to depart from his old job In Spain, he further need not take any job which necessitates a change of residence. In most other countries the rule is that he must accept any work within a reasonable radius of distance and offering wages and working conditions equal to those prevailing in the locality In certain countries like Germany, he has to accept, after a certain period, any work offered by employment exchanges

The unemployed person is also required to *attend the local employment exchange* at frequent intervals while in receipt of benefit. This periodical reporting is required in order to ascertain that the claimant is really unemployed and does not have in fact other employment. It is also helpful in placement

work. Commonly the required attendance is three times a week. He is further liable to receive training or perform work of a public nature, if so required.

Disqualifications in addition to those mentioned already relate to the receipt of other benefits, residence abroad and being an inmate of an institution supported wholly or partly out of public funds, e g , prison

The imposition of a *waiting period* is very useful in that it lessens administrative difficulties, permits the investigation of the statements of the claimants and prevents the diffusion of funds upon cases where both the loss and the need are comparatively slight The waiting period is, in almost every law, larger than that imposed in sickness insurance In Great Britain it consists of three days, in Germany six days Seven days is the usual figure, but in American laws periods of two to three weeks are usual The period is in almost all cases cumulative, i e., spells of unemployment are allowed to be linked together to form a continuous period of unemployment for the purposes of the waiting days and payments of benefit In Great Britain, where a total of three days is required, the rule works in the following way : Any three days of unemployment during six consecutive days are to be regarded as continuous with one another, provided they are not separated by more than ten weeks, i e , sixty days.

Amount of Benefit

The amount of cash benefits should be appreciably lower than what they would earn if employed, since an important advantage thereby results that the temptation to shun work is greatly reduced on account of the financial gain to workmen in securing employment The British law provides a flat rate benefit, as also the Wisconsin Act and its imitators The rates of benefits, however, vary with the sex of the claimants and with the age of the claimants at a few lower ages The benefit rates for the agriculturists are lower, as are also the contribution rates

In sharp contradistinction stand the systems of graduating the benefits in closer correspondence with the difference in earnings. Examination of the benefit structure of most of the insurance

schemes reveals a tendency to weight benefits in favour of the more necessitous claimants, to a degree much more marked than is typical of the comparable benefits of sickness insurance, which is a considerably older branch. This effect has been achieved in two different ways. In some laws, there is prescribed as benefit a percentage of the wage, that decreases as the wage increases. Germany's is a typical example : The German scheme has eleven wage classes The wage of an individual is based upon the average remuneration he receives for three months prior to being unemployed. For each class a representative wage is set. Benefits range from 75 per cent of the lowest representative wage to 35 per cent. of the highest representative wage. In Canada, the percentage varies from 60 to 40 The second way is the one adopted in the American laws : prescribing a relatively high minimum while a uniform percentage applies. Thus if the benefit is laid down as a uniform percentage of the wages with a certain high minimum, it practically amounts to laying down broadly a decreasing percentage

Dependants' Allowances

The granting of dependants' allowances has now become almost a universal practice in unemployment insurance Supplementary allowances are granted for the dependent members of the insured person's family,—incidentally, indicating that in social insurance, the social objective is stressed more than the insurance method These allowances are in some schemes substantial, and for large families, may even exceed the principal benefit itself

As for the duration of unemployment benefit, the maximum is in most cases less than the twenty-six weeks typical of sickness insurance. In Great Britain and South Africa, the maximum duration is twenty-six weeks. In New Zealand unemployment benefit is paid without limit of time. However, in most schemes the maximum duration varies between fifteen and twenty weeks. Another method of limiting the duration of benefits has been frequently adopted in unemployment insurance—in fact this feature is peculiar to unemployment insurance,—that the number of total weeks of benefit should in no case exceed a given fraction of the number of weekly contributions made by the worker, during

the previous base period, i.e., the period, on the contribution history during which, is based the duration of benefits. This fraction may be $\frac{1}{3}$, $\frac{1}{5}$ or $\frac{1}{8}$. In Great Britain this check applies only where it is a question of continuing benefits beyond twenty-six weeks.

Benefits in Kind

Placement and Employment Exchanges

Benefits in kind play an important part in schemes of unemployment insurance. Placement of the unemployed workers has in fact the same relation to unemployment benefits as medical care has to sickness benefit in sickness insurance. Therefore unemployment insurance has to work in very close collaboration with the public employment exchanges, which look after the employment of the persons in receipt of benefit who are required to attend the exchange at short intervals in order to prove that they are available for work. The placement work has become so important that the employment exchanges have become the pivot of the working of unemployment insurance schemes. Not that the employment exchange can itself create openings for work, but it puts those seeking work in touch with those seeking labour with the least possible delay. A well organised placing service plays a part of paramount importance : it is a *sine qua non* of the efficient working of unemployment insurance schemes which every country desirous of ensuring public order and social justice is now obliged to establish Incidentally, it may be observed that besides being a palliative for the relief of unemployment, placing work should also form an important consideration in any economic planning designed to bring more order and stability into the economic system The exchanges try to acquaint themselves with all vacancies in their localities , they classify the unemployed according to their trades and skills, and arrange for suitable candidates to be interviewed by employers. The functions of the employment service often involve the most careful consideration of individual cases The exchanges require a well-trained staff imbued with the idea of service to its clients and behaving with tact and understanding

Vocational Guidance and Training

The employment exchanges must also provide facilities for vocational guidance and training. This has been done in most schemes It is specially valuable to the physically handicapped, the juveniles and also adults, who need to change their trade The unemployed should be made liable to receive training or perform work of a public nature for two reasons : they can be happier and more contented when they are kept usefully active than when they are idle ; the otherwise idle time of the unemployed can then be turned into the production of socially necessary goods or into the improvement of the capacities of the workers themselves.

Organisation

The Typical Organisation

The typical organisation of compulsory unemployment insurance consists of a central insurance institution, working through the employment exchanges as its local agencies. As a general rule, the institutions of compulsory insurance are administered by the State, while the machinery of voluntary insurance is provided by private organisations, which are generally trade unions The contrast is, however, not a sharp one, for the public authorities concern themselves with the management of voluntary insurance funds as well, and conversely provision is often made for insured persons to participate in the control of compulsory insurance institutions

The need for large membership of insurance institutions in the case of pension insurance has been stressed * But such concentration of large number of members is required by unemployment insurance to even a greater extent than by pension insurance, in order to smooth out as much as possible the occupational and local fluctuations in the risks, though, of course, it still needs to accumulate a large contingency fund

Where unemployment insurance and the employment service are not subject to the same authority, close co-operation at the centre is necessary between them. The local administration must

* See Chap. IV.

of necessity rest upon the public employment exchanges and cannot be carried on without them, for there must be an agency to test and inspect the claims, to pay the benefits and to look after the placement of the beneficiaries. The number of local offices should, of course, be sufficiently large.

The judicial function of the settlement of disputed claims is performed as a rule by three sets of officials : A local insurance officer attached to each employment exchange first examines the claims. In Great Britain such officer is the manager of the local employment exchange Next, a local committee generally composed of a worker, an employer and a neutral considers cases appealed to them from the decision of the officer. Finally, a State board of umpires is constituted to take cases appealed from the local committee.

For the collection of contributions, the stamp-book method, being the simplest, has been widely adopted in Europe . The employer has to buy special stamps and affix each week,—in a separate book for each worker, stamps representing his own and the worker's contribution These stamps are marked with the date of payment So long as the worker is employed, the card lies with the employer In the case of loss of service, this card has to be deposited with the nearest employment exchange and this at once serves as evidence of unemployment, and furnishes the data as to the number of weeks during the current year for which the worker was unemployed and the number of weeks during which contributions were paid. A central record office has the cards for the previous years.

Germany

In Germany, administration has been placed in the hands of an autonomous body, the Reichsanstalt fur Arbeitsvermittlung und Arbeitslosenversicherung, ultimate supervision over which is given to the Minister of Labour * The Reichsanstalt is organised into local, district, and national bodies. Occupational, as well as geographic, divisions receive recognition The Reichsanstalt is made of three groups having power of administration and control the governing bodies , the officials and their staffs who

* M R Caroll, *Unemployment Insurance in Germany*, p. 60.

conduct the work of the offices ; and the courts of reference or appeal. These three groups comprise the " enforcement machinery " of each local and district as well as of the national office. In many ways the organisation of the Reichsanstalt is unique. The disregard of political boundaries in the establishment of the local and district offices, and its autonomy as a national body, remove it from the usual types of political control. The balance of power in the governing committees is given to employers and workers.

Great Britain

In Great Britain a prominent feature of the organisation of unemployment insurance is the setting up, under the 1934 Act, of the Unemployment Insurance Statutory Committee.* It consists of a chairman and five other members, three men and two women. Two of the members are appointed after consultation with employers' and workers' organisations respectively. The committee is required to advise the Minister of Labour on the administration of the scheme,—especially the supervision of the finances of the unemployment insurance fund,—and to report on regulations proposed by the Minister, and on the fund's financial situation at least once a year The committee has to be endowed with the gift of prophecy and to anticipate the future condition of the fund. In fact, the committee has to be concerned more with the future prospects of unemployment than with the situation at the moment of the report. Although the committee has been doing quite useful work in guiding the fund, experience has shown that it is actually exceedingly difficult to foretell the course of employment The committee itself has realised this nature of its task and in the 1937 report the committee drew attention to this fact . " We draw conclusions as to the course of unemployment in the future only because, without some conclusions of whatever character, we cannot perform our statutory duty of reporting on the prospective relation between the income and expenditure of the unemployment fund and adjusting its finances We only prophesy because we must." †

* *Social Security*,—Ed. Robson (1943), p 122

† Ibid, p. 219.

General Observations

It has been said of unemployment insurance that " No branch of social insurance has witnessed so many changes due very much more to the painful consequences of economic stress than to the second thoughts of legislators."* A situation of comparative stability seems to have been attained only in recent years. The history of the British and German schemes affords ample proof of the above statement. In Germany, unemployment insurance was established in 1927, when the post-war unemployment was at its peak, so that the system had to withstand even greater tests than the British. Under stress of economic factors and heavy unemployment, both the German and the British systems went through numerous changes. Incessant efforts were made to keep the systems working in various ways by reductions, restrictions and still more reductions In Great Britain, in 1932, the debt contracted by the unemployment insurance fund reached its peak in the sum of £115,000,000 Despite the hardships encountered by the two major schemes of unemployment insurance, there never have been any serious proposals in Great Britain or Germany for their abandonment. The slow development of compulsory unemployment insurance in general has been due in part to the doubt whether unemployment is an insurable risk, since it is difficult to define and is unpredictable in its volume, while a relief system, it was felt, was indispensable to meet prolonged unemployment The recent accession of the United States and Canada to the ranks of countries with compulsory schemes shows, however, that the advantages of the insurance forms have been judged sufficient to warrant the effort to subject this refractory risk to the insurance technique

Perhaps the most basic problem in the field of unemployment insurance is that of obtaining pertinent statistics to supply the basis for a sound insurance system Statistical data, if possible, should cover successive business cycles and should separate by wage and occupational groupings the rate and duration of unemployment, the total number of jobless persons and the average length of unemployment per person, the total number of claims

* Percy Cohen, *Unemployment Insurance and Assistance in Great Britain*, p 5

and their annual duration under a number of possible plans It is true that because of the still all too vague knowledge of trade cycles and the many variables which have not yet been defined and measured, the causes of unemployment are more complex than those of any other single risk The " catastrophe " hazard also defies analysis. But these difficulties did not furnish insuperable obstacles to plans worked out experimentally. Indeed since the inception of the insurance scheme the necessary correlation of public employment exchanges with compulsory unemployment insurance has in European countries given far more accurate statistics and continuous data with respect to the extent and incidence of unemployment than are available in the United States

Finally, it must be borne in mind that the argument for unemployment insurance can be readily accepted, provided too much is not claimed for it It has already been stated that unemployment insurance accepts a limited liability The risk covered is essentially that of temporary unemployment. Unemployment insurance rejects responsibility for the catastrophic sector of the unemployment field. When the British scheme, at one stage, tried to assume practically the entire load of unemployment, it got, as has already been said, into inevitable difficulties The experience of the British and the German insurance schemes has shown beyond doubt that unemployment insurance can care for only a part of the unemployment during adverse periods of depression, though in normal times it helps almost all the unemployed to " tide over " their difficulties The limits of an insurance system for meeting unemployment have to be recognised. It is true that, although supplementary programmes of relief had to be instituted in the face of depression in a number of countries, the countries which had provided for some sort of unemployment insurance, were better able to care for their unemployed than countries like the United States of America where public unemployment insurance schemes had been opposed, criticised and then not adopted. Yet even the most enthusiastic supporter of unemployment insurance as the most dignified, feasible and systematic method of relieving some of the distress caused by lack of work, must face the realities squarely and

admit the need of devising a systematic plan, besides building up reserves in the insurance fund, for emergency relief to be financed from public funds and administered on the basis of need. In Great Britain recognising the need for unemployment assistance as a complement to unemployment insurance there has been established a system of unemployment assistance on a permanent and highly systematic basis This was done in 1934, when the Unemployment Assistance Board was set up, to assist the long-term unemployed who had exhausted their standard benefit * The Assistance Board, by which name it is now known, is one of the major social experiments of the century. It is, in plain terms, a nation-wide relief agency administering benefits according to uniform scales on the basis of need. Two underlying principles have been that there should be national rather than local responsibility for the victims of national disasters, and there should be uniformity of treatment for such victims. The Assistance Board is an ad hoc body consisting of chairman and deputy chairman, full-time and appointed for seven and five years respectively, and three salaried part-time members appointed for three years each The Board was originally formed to assist the long-term unemployed who had exhausted their standard benefits ; since 1937, the Board took over those unemployed who were ineligible for unemployment insurance benefits but had been insured persons under the Widows', Orphans' and Old Age Contributory Pensions Acts Since the outbreak of the present war when many persons were suddenly impoverished, the Board has been specially empowered to administer the scheme for the prevention and relief of distress arising out of the war ; and from 1940, the Board is also empowered to grant supplementary pensions to persons over 60 years of age already in receipt of old age or widow's pension. The Board has been given some more activities connected with the war In fact, the Board now deals more with the pensions than with the unemployed , it has become virtually a national assistance agency, no longer confined to unemployment, doing on a nation-wide scale, what otherwise public assistance committees would have been doing locally The

* For a detailed information relating to the Assistance Board, refer to *Social Security*,—Ed Robson (1943), pp 126-155

Board also provides for rehabilitation and training on a voluntary basis. This feature of the British social insurance system is indeed unique, worthy of emulation by all countries desirous of ensuring social security.

CHAPTER VI

FINANCIAL RESOURCES OF SOCIAL INSURANCE

SINCE social insurance guarantees the insured persons certain benefits in the event of the materialisation of the risks covered by it, considerable financial resources are required for the system to work. Since it is an " insurance " system, the insured persons generally have to pay for the benefits that they have been promised. However, as already explained in the discussion on " the Concept of Social Insurance " they cannot afford to bear the whole burden of the cost of insurance ; this economic problem of social insurance has been stressed by a leading American social worker in the following terms · " The class which needs social insurance cannot afford it, and the class that can afford it does not need it." In view of the fact that all individuals are not able to provide against the risks which they incur, the modern legislator has found it necessary to transfer all or part of the responsibility for the financial burden of social insurance upon the shoulders of persons or groups not directly threatened by such risks. In its financial aspect, social insurance differs from public relief also, because the insured persons have to pay at least a part of the cost of insurance. Of course, a system of social insurance may exist (and does exist in the Soviet Russia), under which the insured are not required to pay any contribution and the annual costs are borne either by the State or the employers alone ; in these extreme cases, it becomes rather difficult to draw a clear line between insurance and relief. Nevertheless, the legal basis of right to benefit remains different in social insurance and relief.

CONTRIBUTING PARTIES

Workers

The contributing parties are as a rule three, the workers, the employers and the State The theoretical considerations under-

* I. M. Rubinow, *Social Insurance* (New York, 1913), p 491.

lying the liability of the various parties to contribute are based on the idea that participation in the burden depends either on a responsibility (in the widest sense) for the occurrence of the event insured against or on the advantages received in general and in the shape of the benefits, from the working of insurance. Side by side, of course, there are practical reasons,—often more convincing. In all schemes of social insurance except those of Soviet Russia the workers or the insured persons are found to contribute towards the financing of the schemes. A number of advantages accrue from such contributions. They serve to distinguish social insurance from the unpopular dole or poor relief, giving social insurance some dignity or at least respectability, and also providing the soundest basis for the right to benefit The workers' contributions further help to ensure adequate benefits, which in all probability would not otherwise be obtained. Their contributions will not be merely transferring sums of money from the pockets of one set of workers to those of another. The added financial protection, which the unemployed will receive, plus the psychic reassurance, which the contributions will occasion The workers' contributions will also ensure their participation in the administration of the scheme, thereby enabling them to protect their legitimate rights,—the right of participation being obtained according to the rule that he who pays the piper is generally entitled to call the tune. Their contributions will thus ultimately help in preventing malingering and in bringing home to them that they are partners in the scheme They will definitely be far more zealous in checking possible abuses in the expenditure of the insurance system Finally the workers' contributions also take the place of individual savings and in fact make them more effective by establishing an association which gives better cover for the risks in question.

One point has to be noted in connection with the contributions from the workers, viz., that while all the above considerations are no doubt important and show conclusively the value of their contributions, yet they definitely postulate the existence of minimum wage legislation providing adequate wages with a margin for savings, unless such a situation exists even without the support of such legislation. Otherwise only those workers

can be expected to contribute who really can afford making such payment.

Employers

The financial participation of employers is based on a theory concerning the responsibility of the industry. The existing economic order requires that every undertaking shall itself bear the whole of the burdens which it imposes on production. The entrepreneur covers by insurance the various risks that threaten his material property, the same principles should be applied to "human" capital. For industrial accidents and diseases, the employers' liability principle has been legally recognised almost everywhere The participation of employers in the cost of the risk may be justified also by the advantages which they may be expected to derive from such insurance, e g, increased efficiency of the workers because of a feeling of security engendered by social insurance Social insurance also alleviates the anxiety of employers for the welfare of the workers Finally, the nature and the level of remuneration paid to workers also seems to emphasize the need for the employers' contributions.

Participation of the State

Participation by the public authorities in the cost of social insurance is justified by the inadequacy of the financial resources obtained from joint contributions from the workers and the employers. Further, the State is after all responsible for the health and safety of its people Also, the community as a whole does benefit from social insurance

The participation of the State in the cost of social insurance has taken various forms In some schemes, the State participates by way of direct contributions. This is the case, for example, in sickness insurance schemes of Bulgaria and Chile and unemployment insurance schemes of Great Britain and Poland These contributions are usually equal to half of the joint contribution of the workers and the employers. In the majority of cases, however, it takes the form of subsidies of various types The State subsidy to social insurance assumes in the main two typical forms it may be granted either in aid of the general

revenue of the scheme or in aid of certain benefits (or even administrative expenses). Some schemes may provide for a regular payment by the State of a lump sum, while in some other schemes the State may allocate proceeds of certain taxes In Great Britain, the State meets the entire deficiency arising in the finances of (sickness and) pension insurance from the fact that contributions are calculated to cover the risk of persons entering insurance at the age of 16, whereas all persons entering at that or any later age up to 60, receive the same benefits, in addition, the State bears for the present almost the entire cost of pensions from the age of 70 upwards. Provision for aid from the State to make up any deficiency in the finances is made also in Spain and Denmark (invalidity insurance). The State in some countries bears the cost of fraction of benefit or the whole of certain benefits. In the sickness and invalidity scheme of Great Britain and Northern Ireland, the State grant is fixed at 2/9th and 1/5th (in the case of males and females respectively) of the expenditure on benefits and their administration, payable on disbursement, i e , payment of a benefit attracts a grant,* in the Irish Free State, similar provision is made for 2/9th of the whole cost of benefits. In Sweden, the whole of additional benefits are awarded at the cost of the State In the pension schemes of Austria, Belgium, Czechoslovakia, Germany, Italy and Luxemburg, the State undertakes the payment of supplements to pensions at a uniform rate for all pensions.† In some countries the State grants subsidies towards expenditure on benefits in kind, with a view to improving the standard of such benefits, e g , Germany earmarks yearly 20 million RM from the customs income. The State in some cases grants subsidies towards administrative expenses. These expenses may be in the form of actual subsidies or only free provision of public services. The whole of the expenses are covered in the Netherlands, Greece and Sweden, and a fraction in Czechoslovakia, Denmark, Germany, Hungary and Great Britain (sickness and invalidity) The cost of supervision over administration is generally borne by the

* Vide Ed. Robson, *Social Security* (London, 1943).

† I L.O , *Compulsory Pension Insurance*, Studies and Reports, Series M, No. 10 (Geneva, 1933), p. 476.

State. Subsidies of a temporary character are made to put new schemes into force and to help them in the early years of their activities, as also in exceptional circumstances. In the national insurance schemes, the State subsidy is of considerable value, partly to make up for the lower rate of contribution and also partly because the universal scope of the scheme justifies a fuller measure of aid from public taxation. Thus the Swedish pension scheme is supported to the extent of two-thirds out of public subsidies.

The principles underlying the participation in the cost of insurance are in fact so ancient that their validity has become almost axiomatic. They have sprung from the general responsibility of the master for the welfare of his servant, the mutual aid practised within occupational and other limited groups, and the broad and vague responsibility of the community for its members When the earliest legislation on workmen's compensation, sickness insurance and pension insurance came to be drafted, it seemed natural to invoke these principles. However, it is in workmen's compensation that the incidence of responsibility is most firmly established, having been set on a legal basis* ; and in all those schemes, the liability for compensation rests solely with the employer. In Germany, the earlier measure put forward by Bismarck requiring the worker to contribute to accident insurance was rejected, and the cost of insurance was placed entirely on the employers ; but that principle initiated by Bismarck found expression in sickness insurance to which the worker contributes. Though no such juridical principle of employer's liability has been developed for the other three branches of social insurance, yet a broad uniformity of practice has been brought about from considerations of administrative, financial and political feasibility, and the principle of the joint contribution of the worker and the employer has been almost universally adopted Irrespective of any theoretical arguments, it is evidently much easier to persuade employers and workers to agree to share a charge than it is to impose it wholly on one or the other In addition to a number of merits including easy collection of the joint contribution, the joint contribution may

* See Chap II

suffice—indeed it does so in many schemes of sickness insurance—to cover the entire cost of the scheme, without any help from the tax-payer.

Contributions from either party alone are a rare thing. In workmen's compensation alone it is common to make the employer bear the whole liability for compensation This practice may perhaps have been due to the most direct, obvious and exclusive connection between the risk covered by workmen's compensation schemes, viz., industrial accidents, and the employment of the workers. So far as the other risks are concerned, it is only in Soviet Russia that the cost of all social insurance is borne by the employers. Free insurance for the worker is a characteristic of the Soviet scheme. If any credits are allocated to social insurance in the State budget, they are paid by the State in its capacity as employer In the United States an interesting development has taken place in the field of unemployment insurance, the underlying idea being that unemployment, like industrial accidents, is a concern of the employer on the basis perhaps that the prevention of unemployment is largely in the hands of the employer as in respect of occupational accidents. Working on this idea, some States in America have imposed on the employers the full burden of payments in order that they might themselves seek to reduce or abolish unemployment. Of course this process has been carried to its logical conclusion and the rate of contribution is reduced for the employer if employment is stabilized by him This theory however overlooks the fact that the various undertakings and their managements are responsible for unemployment only in a most limited sense. Unemployment is not the same as industrial accidents. Further, the burden of contribution, if placed entirely on the employers, can be passed on to the consumers and this possibility shows how little the employers will be induced to reduce unemployment with a view to reducing their contributions Further, there is a greater likelihood of the workers' wages being reduced. Instead of such indirect contribution by the worker, it is evidently better that he pays direct with all the accompanying advantages of direct payment.

About the contributing parties the following generalisations

might be made * Almost all pension and unemployment insurance schemes are maintained by contributions from workers, employers and the State. Notable exceptions include the American unemployment schemes, financed by employers only, the Netherlands and Spanish pension schemes, financed by the employers and the State, and the Greek pension scheme and Italian unemployment scheme, financed by workers and employers. It will be noticed that an employer's contribution is provided for in every case. The majority of sickness insurance schemes (about eleven) are supported by workers' and employers' contributions alone, while in some fewer ones including those of Germany and Great Britain all the three parties join in financing the insurance schemes

However, in almost all the special schemes providing pensions for salaried employees or for occupational groups, both the insured persons and employers contribute and there does not appear any rule of tendency for the State to participate also In Brazil tripartite contributions have been provided for all social insurance schemes, whether occupational or general , salaried employees' schemes are subsidised by the State only in Belgium and Hungary.

Of the five national insurance schemes, three (viz , those in New Zealand, Norway and Sweden) are financed by contribution of citizens, as prospective beneficiaries, and by subsidies, while two (viz , those in Denmark and Finland) impose in addition certain charges on employers as such

Shares of Contributing Parties

As regards the proportion in which the several contributing parties share in the cost of social insurance, one broad generalisation may be formulated · that, where both workers and employers contribute, their shares are equal, whether or not the State contributes as well However, some recently enacted laws seem to suggest a tendency to increase the employer's share and decrease that of the worker. Only the Polish Act of 1933 provides for a larger contribution from the wage-earner, the difference

* I.L O , *Approaches to Social Security*, Studies and Report, Series M, No 18 (Montreal, 1942), p 67

between his and the employer's contributions being equal to the average accident premium paid by industrial employers.* Employers have to pay contributions at a rate higher than that fixed for the workers in several general schemes of sickness and pension insurance combined (Chile, 1925 , Greece, 1932 , Peru, 1936) and in the unemployment schemes of Poland (1933), Norway (1938), South Africa (1937) and save for the highest wage-classes, Canada (1940). Several instances are to be found of a sharing of the contributions that varies with the wage-class , these represent an extension of a principle frequently applied that the employer should pay the entire contribution in the case of apprentices or workers with exceptionally low wages. In the Canadian unemployment scheme, for example, and in social insurance for non-manual workers in Poland, the employer's proportion of the joint contribution decreases gradually from the lowest to the highest wage-class, while the worker's proportion obeys the reverse rule.

The normal sharing of contributions may be changed in special cases on account of the economic situation of certain groups of insured persons, e g , those not paid in cash, apprentices, the sick persons, etc Such persons are either completely exempted from payment or made to pay only a reduced contribution, the deficit being made up by the employers concerned or the State, as the law may be. The employer is in a large number of schemes required to pay for excepted workers, like temporary or occasional workers, normal amount of contributions for them, so that the employers may not be tempted to employ such persons in preference to workers subject to compulsory insurance with a view to saving the amount of contribution.

Relation of Contribution to Wages

The question of the relation of workers' contribution to the rates of wages and to the degree of risk may be briefly considered here. The relations between contributions and wages and those between wages and benefits are generally interdependent. The system of uniform rates of contribution independent of wages is generally adopted by laws which fix uniform rates of benefits,

* I.L.O., Series M, No. 18, op. cit , p. 69.

based on the minimum cost of subsistence. Great Britain provides a typical illustration. This system, simple as it is in administration, requires the same amount of saving from all insured persons though their resources are unequal. Where the contributions have been fixed in relation to wages, the wages considered may be individual wages or only wage-classes, the rate of contribution being related to a representative wage from each class,—the basic wage. The latter system of wage-classes is more common, being less complicated in administration than the system of individual wages. The value of this system depends on the degree to which the classes correspond to the actual distribution of insured persons by wages, and from this point of view the number of the wage-classes is an important factor. Again, the percentage which the rate of contribution bears to the individual wage or the basic wage is uniform for all in some schemes, while in some other it varies with the amount of the wage, the rate increasing as the wage rises. This latter system is obviously more equitable In the German unemployment insurance scheme the rate of contributions for workers and employers is 3 per cent. of wages *

In the great majority of social insurance schemes, contributions are proportional to wages If the contributions and the benefits for the wage-earners are examined in such cases, it is evident that the contributions in respect of low wage-earners are, as a rule, insufficient to cover the cost of their benefits. The deficit is met by a transfer from the contributions in respect of high wage-earners and by the whole or larger share of the State subsidy, where such is provided. Social insurance laws and explanatory memoranda are reticent concerning the manner in which the contributions paid in respect of an individual are appropriated for the benefit of another whose need is greater † It seems safe to assert, however, that the high wage-earner, in almost every scheme, obtains a full return for his share of the joint contribution The extent to which the employer's share is used to help the needier beneficiaries—not only low wage-earners, but also elderly entrants (in whose case the risk is high) into pension insurance

* M R Carroll, *Unemployment Insurance in Germany* (Washington, 1929), p 81

† I L O, Series M, No 18, op cit, p 72

—depends in part on the presence of a State subsidy and on its sufficiency. Thus, under the Belgian pension schemes, the joint contribution is credited almost entirely to the person in respect of whom it is paid, while a special State subsidy takes care of elderly entrants * Under the Federal pension insurance scheme in the United States, by contrast, the employers' share is heavily drawn upon on behalf of both low wage-earners and elderly entrants in the absence of a Federal subsidy.

Relation of Contribution to Risk

In any system of social insurance, perhaps the most serious technical problem is the adjustment of rates of contribution to the value of the various risks covered. The principle of insurance that the premium and the probable benefit should be equal is tried to be followed as far as is practicable in private insurance Social insurance, because it is " insurance " must take account of this principle ; but because it is " social " (i.e., because its purpose is social) it must also have regard to the social adequacy of its benefits and seek to prevent destitution in the largest possible number of cases. If the contribution is fixed strictly in proportion to the financial risk, some distinction must be made between good and bad risks, leading to increase in the cost of insurance for workers that present bad risks or to their complete exclusion from insurance Either alternative is opposed to the spirit of social insurance, since it would place the workers at a disadvantage in the labour market, especially those who have the greatest need of the services rendered by social insurance

The risk that an individual introduces into social insurance varies with his susceptibility to disease, accident and unemployment, and with his expectation of life Therefore the important factors that might be taken into account as influencing the degree of the risk are age, sex and occupation , if dependants' allowances are provided, then their age, sex and number are also significant Of these factors, that of occupation is sometimes taken into account, particularly in covering occupational risks, as exemplified in some branches of social insurance in the grouping of workers by occupation, each occupation covering its own risk,

* I L.O , Series M, No. 18, op. cit., p. 73

e.g., special pension scheme for salaried employees, miners, railwaymen, etc.; separate social insurance schemes for industry and agriculture; grouping by "occupational risk" classes within schemes of workmen's compensation (in all countries except Rumania), and of unemployment insurance (in South Africa). However, except in workmen's compensation, in all general schemes, occupations are generally massed together, the contribution being independent of the specific risk of each occupation.

Within every scheme of social insurance, be it general or occupational in its scope, the contribution rate as a rule is unaffected by the age, sex or family responsibilities of the worker concerned, though these factors largely affect the range of benefits granted. The only sort of selection that is exercised in social insurance is involved in the conditions of eligibility to benefits or of entry into insurance, persons whose advanced age marks them out as immediate candidates for benefits are barred from entry into insurance by the fixing of a limiting age, further, the insuring persons are obliged to prove that they possess normal health and employability by completing a qualifying period of insurance before claiming benefit. Selection may be said to be effected to the greatest degree in pension insurance (age and long qualifying period), then to a little less extent in unemployment insurance (age and medium qualifying period), then again to a further less extent in sickness insurance (age and short qualifying period or none), and finally to the least extent in accident insurance. In social insurance the principle of equality between the premium and the probable benefit nevertheless finds a rational, if crude, application, particularly if social insurance is compulsory. The vast majority of insured persons enter insurable employment straight from school and remain there as long as they are able. It is one of the advantages of compulsory insurance that it applies to the whole, or the greater part, of the population and that therefore the law of large numbers holds good to a considerable extent. The statement may be ventured that there is no need to distinguish between good and bad risks and that the amount of contributions can be fixed irrespective of certain factors like age, expectation of life, general state of health, etc., in a scheme of compulsory

insurance, since such individual factors are then safely replaced by the average probability of invalidity, death and unemployment. The entrants into insurance in fact traverse a typical or average history, making smaller demands on benefits at some stages, larger at others, and they pay a level premium throughout their insurance career.

Merit Rating

Another question to be considered regarding the relation between contribution and risk in social insurance is that of merit rating. Merit rating means the setting up of differential rates of taxes, i.e., contributions that are in some degree related to an employer's success in keeping down the intensity of the risk so far as his employees are considered, e g., in unemployment insurance this success is measured by the benefits paid to unemployed persons formerly on his payroll.* Evidently this theory proceeds from the hypothesis that the employer is able, to some extent, to control the frequency and severity of the losses in respect of which social insurance benefits are payable. Consequently it affects undertakings individually, and not groups of similar undertakings. Merit rating is such a manipulation of the premium as will afford an incentive for the payer thereof to reduce the risk in question Merit rating is practised extensively in accident insurance, and in the United States by numerous State unemployment funds So far as sickness insurance is considered, a sort of risk premium is charged for the heads of certain specified undertakings that are considered more dangerous. This is the case, for instance, in Austria, Czechoslovakia, Germany, Norway and Rumania.†

In accident insurance, merit rating takes into account the inequalities in risk among industries that result from differences in the process, machinery, etc , characteristic of each industry An average premium is established for each class of undertaking, and variations, up or down, are made in the premium charged

* For details see Feldman and Smith, *The Case for Experience Rating in Unemployment Insurance* (1939).

† I.L O , *General Problems of Social Insurance*, Series M, No 1 (Geneva, 1925), p. 64.

to each undertaking, either according to the number and severity of the accidents that have occurred in it, or according to an appraisal of its equipment and organisation, special credit being given, for example, for the installation of safety devices. In the calculation of the debits and credits assigned to each employer are employed highly technical methods and the administrative expense involved is considerable. Merit rating can be applied only in a limited range of industries and fairly large undertakings. This device has no doubt encouraged employers to reduce the accident hazard of their undertakings, both by installing better safety devices than the factory legislation requires and by carrying on "safety first" propaganda among their workers. This has been done by them not merely with the object of getting their premium reduced, but also with a view to the other gains accruing from lesser accidents to their employees, e.g., the disorganisation of production that accidents entail is lessened. After all the premium can be reduced only within certain limits and the accidents that can be avoided by preventive measures comprise only a fraction of the whole Again, American experience shows that of the total savings effected by a lower frequency of accidents, the reduction of premium constitutes only one quarter.

While merit rating is common enough in the workmen's compensation insurance, in unemployment insurance it is to be found only in a number of schemes in the United States alone (by the name experience rating). These schemes being only a few years old may be regarded as still in the experimental stage In unemployment insurance each undertaking is taken into account individually. It may be recalled that in the United States premiums in unemployment insurance are all paid by the employers alone. The premiums are uniform for the first three years—they are fixed at a uniform percentage of the payroll. Then, on the experience of the undertaking during the period, the premium is varied up or down, between certain limits

The principle is clear that each undertaking shall bear a large proportion of the cost of the benefits paid to its discharged workers. In the United States the example of industrial accidents has been decisive ; it has been thought that unemployment like

industrial accident is industrial rather than a social risk, and that the cost of compensation should figure in the operating expenses of the undertaking held responsible and therefore the entire premium is charged to the employer The question of experience rating in its application to unemployment insurance has been the subject of a vigorous controversy particularly in the United States. The advocates of this theory consider promoting security of the job, as the most essential thing In this sense any inducement that insurance differentials can give to the employers to introduce improvements in their operations and so reduce the number of dismissals is of utmost desirability." Sir William Beveridge believes that measures of same kind must be taken to make trades which have excessive unemployment . . set their homes in order and pay, until they do so, for their own resources of labour "* The most important objection, however, to experience rating in unemployment insurance has been that it will, in effect, reward employers who operate in stable industries rather than those who have stabilized their operations. Employers who take part in the production of goods for a market subject to severe fluctuations have to contribute at high rates, while employers who participate in the production of goods for a relatively stable market are required to pay premiums at lower rates. The reward of rate reduction will go to employers who have done nothing to earn it The penalty of high rates will be imposed upon employers who are not much inefficient as unlucky. The supporters of the theory point out in defence that such a situation is to be found in all types of insurance, e g , life and fire, and that all differentiation in insurance rates does favour those who happen to be in a fortunate position with regard to the standard used for the determination of rates Insurance pursues broad objectives, and only rough justice can be achieved.

The European systems have knowingly disregarded this factor with the view that it is fair and just that less hazardous trades and occupations be made to share in the burden of unemployment which faces other trades and occupations to a much larger degree. In Germany the 3 per cent rate may be lowered for districts showing a favourable balance after adequate reserves are

* Feldman and Smith, op. cit., p. 13.

assured to the Reichsanstalt * Reduction in rates is only allowable in districts which have piled up a surplus for three consecutive months. Such more favourable terms are expected to encourage efficiency in the administration of unemployment funds Reduction of rates is limited to districts and is intentionally not extended to individual employers or special industries. Germany is of the opinion that gradation of contributions according to the risks of industry produces negligible results in controlling unemployment. It is admitted that such a policy might help to regularise certain types of seasonal unemployment or stimulate employers to discover and practise schemes for stabilization within their own establishments. Gains in one plant, however, are thought to be made largely at the expense of increased fluctuations in employment in other establishments, as long as the problems of trade fluctuations remain unchanged. A sliding scale of contributions is considered futile to stem the tide of unemployment arising from technological changes in industry The attempt to grade contributions in order to induce the employer to eliminate or reduce unemployment is thought to result from fallacious analogy between unemployment and industrial accident. The latter is an exact event the cause of which can be traced with comparative ease and can be subjected to mechanical control In addition, the accounting and administrative costs incidental to an attempt to grade contributions according to risks are deemed prohibitive

The aim of the process of experience rating to induce the employers to reduce the number of dismissals is indeed welcome, since amongst industrial labour arbitrary and irresponsible dismissals are quite common A better way to achieve it, however, would be as follows · uniform rates should be payable by employers, but upon a periodical review of, say three or five years, part refund of the contributions would be allowable in cases of improvements in the operations of the employers and attempts to reduce the number of dismissals. Dismissals should be reviewed and examined

If contributions are to be graduated according to the relative volume of unemployment, the following considerations may be

* M. R. Carroll, op. cit., pp 81-3

borne in mind. A legal minimum and maximum below and above which the rate fixing body cannot go should be fixed by law, leaving at the same time ample room for the stimulus for regularisation to operate. There should be a preliminary period of uniform contribution, during which the necessary data will be collected to permit experience rating. In fixing the relative rating for undertakings, it should not be forgotten that factors outside a given industry may aggravate unemployment, e.g., shifts in demand, rise of new industries, etc.

Incidence of the Cost of Social Insurance

The rational distribution of cost is in itself difficult to achieve but it is rendered all the more so by the operation of the economic law of incidence, to which social insurance costs, like taxes, are subject. The distribution of costs may ultimately be quite different from that intended by the legislator, because of the possible shifting of the costs to other shoulders. So far as the subsidies are provided out of public taxation, their incidence depends on the nature of the tax, according to which they will be borne by either the whole community or a particular group of it The contributions of the employers and the employees are borne in the first instance by those who actually pay them ; but the ultimate distribution of the burden is uncertain. The insurance contributions will, from the long-term point of view, be regarded by the employers as a factor in the cost of production, while the workers on their part will try to shift their contributions upon employers by demanding higher money wages. The contributions of the employers and the employees may finally be incorporated in the prices of commodities like other costs of production, and will in consequence be paid by the consumers as a whole. Or they may be allowed for implicitly by deductions in the wages paid to labour and be thereby finally paid out of wages the incidence of the cost thereby falling on wage-earners. The incidence of cost does not depend only on the theoretical economic laws, but also on the changing conditions of competition, the state of the market and the bargaining power of the industrial organisations.

CHAPTER VII

ACTUARIAL TECHNIQUE AND FINANCIAL SYSTEMS

NEXT to financial resources, the problem to be considered is that of organising them so as to have the social insurance scheme working on sound lines. The essential function of any financial organisation is the realisation and maintenance of financial equilibrium. The resources of social insurance and its charges have to be balanced According to the nature of the risk and the benefit, it may be expedient to balance benefit expenditure against contribution income either over a short period or over a long, even an indefinitely long period In any case, cash must be available to pay benefits as they fall due, and the test of actuarial solvency at any date is the same, namely, the equivalence of the present values of probable revenue and expenditure

In the search for a suitable technique for social insurance, several systems have grown up The financial systems used in social insurance schemes belong to two principal types : the actuarial or the accumulation systems and the assessment systems. The former have developed into two separate and distinct forms, namely, individual accumulation, i.e , accumulation in respect of an average individual entrant at each particular age, and collective accumulation, i.e., accumulation in respect of an average entrant at an average age.

Individual Accumulation System

In the individual accumulation system, the idea has been to employ the methods used in private insurance for the provision of life annuities or invalidity pensions. The main principle here is that in the case of a worker entering insurance at a particular age, the probable present value of the income in respect of him and that of the liability incurred for him at that particular age

of entry are equal. In other words, contributions paid on behalf of each person are supposedly entered into an individual account for the purpose of accumulating at compound interest the sum needed for the payment of benefit Thus there is a very close connection between the contributions paid for each insured person and the amount of the benefits that he may be granted. If the contributions are fixed at a uniform rate for the whole life instead of having the insured person to pay at a rate increasing with age, then such uniform contribution rates are so adjusted that they at first exceed the annual value of the risk and after a certain stage fall below it This is so in most cases as the risk insured against increases with age The adjustment is so effected that the earlier excess when accumulated at compound interest at an assumed rate should be sufficient to cover the deficiency in contributions at older ages. There is therefore always an actuarial reserve for every insured person ; which is at any moment the difference between the probable present values of the future liability and of the future income in respect of the insured person at that moment In this way the actuarial reserve is determined prospectively It can also be determined retrospectively by taking the difference between the probable present values of liability and income relating to the period between the age of entry into insurance and the point of time at which such valuation is made.*

With a financial system of this pattern, a number of operations calling for actuarial technique are required, chief among which are the establishment of benefit schedule, organisation of the technical accounting, calculation of the actuarial liability (i.e., the same as actuarial reserve , it has to be noted that it appears on the liability side of the balance-sheet unlike the ordinary reserves), valuation of the investments, calculation of the rates of yield, selection of the rate of interest serving as a basis for calculation (the actuarial rate), organisation of the statistical work and comparison of its results with the biometric tables adopted as the basis.*

* I.L.O., *Actuarial Technique and Financial Organization of Social Insurance*, Studies and Reports, Series M, No. 17 (Geneva, 1940), p. 27.

Collective Accumulation System

The second method with an actuarial basis is the collective accumulation system. In this method also the financial equilibrium is defined by the relation between the probable present values of the liabilities and contributions of the scheme ; but here the individual insured person remains out of the picture, and the whole insured group (or certain subdivisions) is considered. All the insured persons are required to pay the same average premium, calculated in such a way that the probable values of the premiums to be collected balance with the probable value of the total future expenditure. It has to be noted that the actual capitalisation is no less collective in the individual accumulation system , only, the calculation of the premium in that system, depends on the individual characteristics of the insured with respect to the risk, for instance, the age at entry. Moreover it is theoretically possible in that system to isolate from the mass of actuarial reserve, a particular reserve corresponding to each insured person The individual character of the premium is to some extent transmitted to the reserve fund. The result is that under that system, a member is not indissolubly connected with the fund in which he is first insured, since he may leave it and join another, provided that he brings his reserve with him, and that the new fund works on terms established on the same basis as was used in the old fund

With the average premium pattern in the collective accumulation system, the principal task of actuarial technique is to calculate the average premium, make the preliminary valuation needed in the preparatory work undertaken before the introduction of a social insurance scheme, and prepare the actuarial balance-sheets (these are prepared at intervals of few years, as a rule—three, four or five) * The insurance institutions usually try to compile statistics of the working of the scheme on the lines indicated by the actuarial services The actuarial balance-sheets and the necessary technical work are useful in controlling the financial evolution of the scheme and making a critical analysis of the sources of profit and loss. The conclusions drawn

* I.L O , Studies and Reports, Series M, No. 17, op cit , p 32.

from the actuarial balance-sheet have very often played a decisive part in the reforms made in social insurance legislation.

Assessment System

As distinguished from the above group of systems having an actuarial basis, there is another group, as already mentioned, namely, that of the assessment systems or "distribution of costs" systems The basic idea here is that the total contributions and subsidies received during each year should be sufficient to pay for the benefits to be granted and the expenses of the administration to be incurred during that year. The financial balancing may be aimed at for each financial year as explained above or for a period comprising several consecutive years. These systems rest, like the collective accumulation system, on a collective conception of financial equilibrium. In fact, if equality of two totals is regularly achieved, the obvious result is the equality in the probable present values that would have been established with the average premium pattern. The assessment systems can be divided into two classes: assessment proper, where the contributions paid during a year or some such other specified period balance with the benefits paid and other expenses incurred during that year or period, and, secondly, assessment of capital cover, where the contributions paid during a year or other specified period balance with the expenses incurred and the capital corresponding to the pensions awarded during the year or the period. In other words, in cases where benefits are paid in the form of a pension, in the former method (assessment proper), only that amount is considered which falls due in that year or period, while in the latter method, the whole amount representing the probable present value of all future payments under premiums (commenced during the year or period) is placed in a reserve and capitalised to ensure the payment of the pensions.

The assessment system, in general, has to be based on a table giving for each financial year an estimate of probable resources against one of probable charges. In addition to this "annual estimates" table, an actuarial balance-sheet (or only a preliminary valuation), may be found necessary in most cases. In an insur-

ance scheme with this "annual estimates" pattern, the actuarial work consists in preparing annual estimates table and a preliminary valuation if necessary. During the working of the scheme, in addition to an accounting balance-sheet, following operations are required: the initial annual estimates table has to be reviewed periodically with reference to the recently compiled statistics, and has to be extended by a certain number of years; further, periodically drawn actuarial balance-sheets must take the place of the preliminary valuation.